New Issue – Book-Entry Only **Ratings:** Moody's: Aa

Fitch: AA+
S&P: AA+
(See "RATINGS" herein)

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

$29,195,000
STATE OF VERMONT
GENERAL OBLIGATION REFUNDING BONDS
2007 SERIES F

Dated: Date of Delivery **Due:** July 15, as shown below

The Bonds will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $5,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds, as more fully described herein.

Interest on the Bonds will be payable semiannually on January 15 and July 15, commencing July 15, 2008. The Bonds will not be subject to redemption prior to maturity.

The Bonds will be general obligations of the State of Vermont and the full faith and credit of the State are pledged to the payment of principal of and interest on the Bonds. See "THE BONDS – Security for the Bonds," herein.

Due July 15	Principal Amount	Interest Rate	Yield	CUSIP Number†	Due July 15	Principal Amount	Interest Rate	Yield	CUSIP Number†
2008	$5,400,000	4.00%	2.98%	924258 RT5	2011	$750,000	3.10%	3.15%	924258 SB3
2009	4,955,000	4.00	3.04	924258 RU2	2012	3,125,000	3.50	3.22	924258 SC1
2009	500,000	3.00	3.04	924258 RV0	2012	100,000	4.00	3.22	924258 SD9
2010	1,710,000	3.50	3.09	924258 RW8	2013	1,340,000	3.50	3.30	924258 SE7
2010	3,200,000	4.00	3.09	924258 RX6	2013	1,250,000	4.00	3.30	924258 SF4
2010	750,000	3.00	3.09	924258 RY4	2013	500,000	3.25	3.30	924258 SG2
2011	3,780,000	3.50	3.15	924258 RZ1	2017	1,435,000	3.75	3.66	924258 SH0
2011	400,000	5.00	3.15	924258 SA5					

This cover page contains certain information for quick reference only. It is a summary of this issue. Prospective investors must read the entire Supplemental Official Statement, including EXHIBIT I hereto, to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued by the State and accepted by the Underwriter, subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about December 20, 2007.

UBS Investment Bank

December 12, 2007

STATE OF VERMONT

ELECTED OFFICERS

Name

JAMES H. DOUGLAS, *Governor*

BRIAN E. DUBIE, *Lieutenant Governor*

GEORGE B. "JEB" SPAULDING, *Treasurer*

DEBORAH L. MARKOWITZ, *Secretary of State*

THOMAS M. SALMON, *Auditor of Accounts*

WILLIAM H. SORRELL, *Attorney General*

BOND COUNSEL
Edwards Angell Palmer & Dodge LLP
Boston, Massachusetts

FINANCIAL ADVISOR
Government Finance Associates, Inc.
New York, New York

In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. The securities described in this Supplemental Official Statement have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than as contained in this Supplemental Official Statement and, if given or made, such other information or representations must not be relied upon. This Supplemental Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Supplemental Official Statement nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Vermont since the date hereof.

This Supplemental Official Statement contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND CERTAIN DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS SUPPLEMENTAL OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS SUPPLEMENTAL OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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SUPPLEMENTAL OFFICIAL STATEMENT

STATE OF VERMONT

$29,195,000
GENERAL OBLIGATION REFUNDING BONDS
2007 SERIES F

INTRODUCTORY STATEMENT

This Introductory Statement is intended to be a brief description of, and is therefore qualified by, the information contained in this Supplemental Official Statement. Each prospective purchaser reviewing this Introductory Statement is directed to review this entire Supplemental Official Statement, including the Appendices and the Official Statement attached hereto and made a part hereof (EXHIBIT I), as well as all the documents referenced, summarized or described in this Supplemental Official Statement.

This Supplemental Official Statement of the State of Vermont (the "State"), including cover pages, appendices and EXHIBIT I, is provided for the purpose of presenting certain information relating to the State in connection with the sale of the State's $29,195,000 aggregate principal amount of its General Obligation Refunding Bonds, 2007 Series F (the "Bonds"). See "THE BONDS" herein for a description of the Bonds and the security therefor. The State of Vermont (the "State") previously issued $35,000,000 aggregate principal amount of its General Obligation Bonds, 2007 Series D (the "2007 Series D Bonds") on November 28, 2007. In connection with the offering of the 2007 Series D Bonds, the State prepared its Official Statement, dated November 14, 2007 (the "Official Statement") which is attached hereto as EXHIBIT I and made a part hereof. EXHIBIT I contains information concerning the State, as well as other information material to prospective purchasers of the Bonds and should be read in its entirety. This Supplemental Official Statement is to be read and understood only in conjunction with the Official Statement and is subject to the limitations described therein. All capitalized terms not defined herein shall have the meanings ascribed to them in the Official Statement. The terms of the Bonds are described generally in this Supplemental Official Statement, which should be read together with the entire Official Statement.

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all reference to the definitive forms of the Bonds and their statutory authority.

On the date hereof, the State also sold its $11,000,000 General Obligation Bonds, 2007 Series E (Citizens Bonds) (the "Series E Bonds") to finance capital projects authorized by the General Assembly. The State plans to issue the Series E Bonds on December 20, 2007. Citigroup Global Markets Inc. was selected to be the underwriter of the Series E Bonds.

Payment and Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds. See "THE BONDS – Security for the Bonds" herein.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will mature on July 15 in each of the years as set forth on the cover page of this Supplemental Official Statement. The Bonds will bear interest from their date until their maturity at the rates per annum set forth on the cover page of this Supplemental Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of $5,000 or any integral multiple thereof on the records of The Depository Trust Company, New York, New York ("DTC") and its Participants. See EXHIBIT I – "BOOK-ENTRY ONLY SYSTEM."

Principal and premium, if any, when due, will be payable to each registered owner at the principal office of Chittenden Trust Company, Burlington, Vermont, Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on July 15 and January 15, commencing July 15, 2008, by check or draft mailed by the Paying Agent to each registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books of the State maintained by the Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds will be paid in immediately available funds, directly to DTC or such nominee as registered owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC; transfer of principal arid interest payments to beneficial owners by Participants of DTC will be the responsibility of such Participants and other nominees of beneficial owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See EXHIBIT I – "BOOK-ENTRY ONLY SYSTEM."

Authorization and Purpose

The Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, pursuant to Section 961, Chapter 13, of Title 32 of the Vermont Statutes Annotated (the "Refunding Bond Act"). The Bonds are being issued to provide funds to refund certain of the State's outstanding general obligation bonds as described under "PLAN OF REFUNDING."

The Refunding Bond Act is part of the State Taxation and Finance Law, Chapter 13 of Title 32 of the Vermont Statutes Annotated (the "General Obligation Bond Law"). The Refunding Bond Act authorizes the State Treasurer, with the approval of the Governor, to issue general obligation bonds to refund all or any portion of one or more issues of general obligation bonds at any time after the issuance of the bonds to be refunded. The Refunding Bond Act further authorizes the State Treasurer to contract with a bank or trust company to serve as escrow agent for the proceeds of the refunding bonds.

The Refunding Bond Act provides that the portion of the proceeds of refunding bonds deposited with the escrow agent and required for the payment of the bonds to be refunded shall be irrevocably committed and pledged to such purpose and the holders of the refunded bonds shall have a lien upon such moneys and investments, which shall become valid and binding upon the issuance of the refunding bonds, without any further act (including, without limitation, the filing or recording of the escrow contract) and that the pledge and lien upon such moneys and investments shall become valid and binding against all parties having claims of any kind in tort, contract or otherwise, against the State, irrespective of whether such parties have notice thereof.

Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State of Vermont will be pledged to the payment of the principal of and interest on the Bonds.

Pursuant to State law, the Treasurer of the State is required to pay the principal of, and interest on, the Bonds as the same become due without further order or authority. The amount necessary each year to pay the maturing principal of, and interest on, the Bonds is required to be included in and made a part of the annual appropriation bill for the expense of State Government. State law requires that principal of, and interest on, the Bonds that may come due before appropriation for the payment thereof has been made are to be paid from the General Fund, the Transportation Fund or other applicable special fund.

For the payment of principal of and interest on general obligation indebtedness, including the Bonds, the State has the power to levy taxes, including taxes on all taxable property and income in the State, without limitation as to rate or amount. For a description of the State's sources of revenues and accounting thereof, see EXHIBIT I – "STATE FUNDS AND REVENUES" hereto and for a more complete discussion of the authorization of general obligation bonds and the provisions for payment thereof, see EXHIBIT I – "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization."

Record Date

The record date for each payment of interest is the last business day of the month preceding the interest payment date, provided that, with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners at least ten (10) days before the special record date.

Redemption

The Bonds are not subject to redemption prior to their stated dates of maturity.

PLAN OF REFUNDING

The Bonds are being issued for the purpose of providing funds to refund certain of the State's general obligation bonds (the "Refunded Bonds"). The Refunded Bonds will consist of the State's general obligation bonds listed in the following table:

Refunded Bonds

Series	Maturity Date	Interest Date	Amount to be Refunded	Redemption Date	Redemption Price
1998 Series A	01/15/2009	5.50%	$5,160,000	01/24/2008	101%
1998 Series A	01/15/2010	5.00	5,215,000	01/24/2008	101
1998 Series A	01/15/2011	5.00	5,470,000	01/24/2008	101
1998 Series A	01/15/2012	5.00	4,820,000	01/24/2008	101
1998 Series A	01/15/2013	5.00	3,205,000	01/24/2008	101
1998 Series A	01/15/2014	5.00	3,125,000	01/24/2008	101
1998 Series C	01/15/2018	4.75	1,400,000	01/15/2009	101

Upon delivery of the Bonds, the State will enter into an Escrow Agreement (the "Escrow Agreement") with Chittenden Trust Company, Burlington, Vermont, as Escrow Agent (the "Escrow Agent"). Upon receipt of the proceeds of the Bonds, the Escrow Agent will deposit in the Escrow Fund established under the Escrow Agreement an amount that will be invested in direct obligations of the United State of America or obligations unconditionally guaranteed by the United States of America ("Government Obligations") maturing in amounts and bearing interest at rates sufficient to pay when due interest on and, on the redemption date, the outstanding principal of and redemption premium, if any, on the Refunded Bonds. The Escrow Fund, including the interest earnings on the Government Obligations, is pledged for the benefit of the holders of the Refunded Bonds.

ADDITIONAL INFORMATION AFFECTING THE STATE

The Official Statement attached hereto as EXHIBIT I contains important financial and other information concerning the State, as well as other information material to prospective purchasers of the Bonds and should be read in its entirety. The information in the following paragraphs should be read together with such information.

The following information updates the information under the heading "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Fiscal Year 2008 General, Transportation and Education Funds to Date:"

Fiscal Year 2008 General, Transportation and Education Funds to Date

In October 2007, the State determined that certain jet fuel tax revenues received from July 1998 through September 2007 had been incorrectly credited to the General Fund and Education Fund as Sales and Use Tax revenues rather than to the Transportation Fund. Accordingly, in October, the State transferred to the Transportation Fund, $2.80 million and $0.96 million of jet fuel tax revenues from the General Fund and Education Fund, respectively.

Through October 31, 2007, General Fund revenues were $382.55 million, up 1.87% or $7.03 million against a July 2007 target of $375.53 million. Greater than expected results in the Personal Income Tax, Rooms and Meals Tax and the Corporate Income Tax accounted for the strong showing during the first four months of fiscal 2008. But for the jet fuel tax transfer, General Fund receipts would have been $9.82 million ahead of its cumulative consensus cash flow target through October 31.

Through October 31, 2007 Transportation Fund revenues were $78.12 million, up 1.35% or $1.04 million against a July 2007 target of $77.08 million. These stronger than expected receipts were a result of the transfers described above, which resulted in receipts in the Other Fees-Revenues category tracking $3.19 million ahead of its cumulative consensus cash flow target for the month. Other receipts in the Transportation Fund were sluggish. These components included the Gasoline Tax down 4.33% or $1.0 million against target, the Diesel Tax down 4.81% or $0.28 million against target and the motor vehicle Purchase and Use Tax, down 2.55% or $0.49 million against target. But for the jet fuel tax transfers, total Transportation Fund receipts would have been $2.72 million behind its cumulative consensus cash flow target through October 31.

Through October 31, 2007, Education Fund revenues were $54.31 million, down 2.43% or $1.35 million against a July 2007 target of $55.66 million. All major components trail their forecast targets through the first four months of fiscal 2008. But for the jet fuel tax transfer, the Education Fund would have been $0.39 million behind its cumulative consensus cash flow target through October 31.

Fiscal Year 2008 General Fund Results to Date

July 1, 2007 – October 31, 2007
(Un-audited)

	Revenue Estimate[1]	Revenue Collections[2]
Personal Income Tax	$190,111,400	$194,050,894
Sales and Use Tax	78,558,900	77,186,723
Corporate Income Tax	18,816,500	22,798,528
Meals and Rooms Tax	42,542,600	45,537,664
Property Transfer	4,251,700	4,718,843
Other Revenues	41,245,200	38,259,011
Total	$375,526,300	$382,551,663

[1] Official Revenue Estimates as of July 24, 2007.
[2] Net of $2,798,397 in receipts to the Transportation Fund per the jet fuel tax transfer.

Fiscal Year 2008 Transportation Fund Results to Date

July 1, 2007 – October 31, 2007
(Un-audited)

	Revenue Estimate[1]	Revenue Collections[2]
Gasoline Tax	$22,941,700	$21,949,058
Diesel Tax	5,845,500	5,564,065
Purchase and Use Tax	19,293,300	18,801,179
Motor Vehicle Fees	22,486,300	22,101,216
Other Revenues	6,514,700	9,705,381
Total	$77,081,500	$78,120,899

[1] Official Revenue Estimates as of July 24, 2007.
[2] Includes $3,760,662 in receipts from the General Fund and the Education Fund per the jet fuel tax transfer.

Fiscal Year 2008 Education Fund Results to Date*

	July 1, 2007 – October 31, 2007 (Un-audited) Revenue Estimate[1]	Revenue Collections[2]
Sales and Use Tax	$39,279,500	$38,592,782
Lottery	6,922,200	6,708,047
Motor Vehicle Purchase & Use Tax	9,646,600	9,400,589
Other Revenues[3]	(190,600)	(394,458)
Total	$55,657,700	$54,306,960

* Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of July 24, 2007.
[2] Net of $962,265 in receipts to the Transportation Fund per the jet fuel tax transfer.
[3] In prior and current fiscal years, the General Fund has advanced funds for Education Fund expenditures prior to significant revenues being received by the Education Fund. During this time, the Education Fund incurs interest expense payable to the General Fund, which is budgeted as a negative revenue.

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other State of Vermont tax consequences arising with respect to the Bonds. Bond Counsel also has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than the State of Vermont. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and State of Vermont personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Prospective Beneficial Owners should also be aware that the statutory framework on which the exemption from State of Vermont personal income taxes and State of Vermont corporate income taxes described above is similar to that at issue in Department of Revenue of Kentucky v. Davis, 197 S.W.3d 557 (Ky. App. 2006), cert. granted, 75 U.S.L.W. 3621 (May 21, 2007), in which the Kentucky court held that a statute that provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the commerce clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent State of Vermont judicial decisions, or statutory enactments intended to ensure the constitutionality of Vermont tax law could, among other alternatives, adversely affect the State of Vermont tax exemption of outstanding municipal bonds, including the Bonds, to the extent constitutionally permissible, or result in the exemption from State of Vermont income tax of interest on non-Vermont municipal bonds, either of which could adversely affect the market price of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

FINANCIAL ADVISOR

Government Finance Associates, Inc. serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, Government Finance Associates, Inc. has read and participated in the preparation of certain portions of this Supplemental Official Statement. Government Finance Associates, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

On the date of delivery and payment, proceeds of the Bonds will be used to purchase SLGs to be held in trust by the escrow agent to provide for payment of principal of and interest and premium on the Refunded Bonds through their respective maturity or redemption dates. The arithmetical accuracy of certain computations included in the schedules provided by or on behalf of the State relating to (a) computation of anticipated receipts of principal and interest on the SLGs to pay the regularly scheduled debt service on the Refunded Bonds until the respective maturity dates or call dates and to redeem the Refunded Bonds on those respective call dates and (b) computation of yields on the Bonds and the SLGs will be verified by The Arbitrage Group, Inc., independent arbitrage consultants.

Such computations are based solely upon assumptions and information supplied by or on behalf of the State. The Arbitrage Group, Inc. has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

RATINGS

The State has received ratings of "AA+," "Aaa" and "AA+" from Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. (each, a "Rating Agency"), respectively on the Bonds. The State furnished each Rating Agency with certain information and materials concerning the Bonds and the State. Generally, each Rating Agency bases its rating on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that such rating will continue for any given period of time or that such rating may not be suspended, lowered or withdrawn entirely by such Rating Agency if, in its judgment, circumstances so warrant. Any explanation of the significance of the ratings may be obtained only from each respective Rating Agency.

UNDERWRITING

The Bonds are being purchased for re-offering by the Underwriter, UBS Securities LLC, at an aggregate purchase price of $29,559,069.10 and the Underwriter will receive a fee from the State in an amount equal to $78,821.45. The Contract of Purchase provides that the Underwriter will purchase all of the Bonds if any are purchased. The Underwriter may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower (or yields higher) than the public offering prices (or yields) stated on the cover page hereof. The public offering prices (or yields) set forth on the cover page hereof may be changed from time to time after the initial offering by the Underwriter.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Edwards Angell Palmer & Dodge LLP, Bond Counsel, whose opinion approving the validity and tax exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of the opinion of Bond Counsel is attached hereto as Appendix B. Certain legal matters will be passed upon for the Underwriter by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish certificates of the Treasurer and Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or to the best of each officer's knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or the levy or collection or enforcement of any taxes to pay principal of or interest on the Bonds.

The Governor's and Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate, dated the date of delivery of the Bonds, signed by the Governor and the Treasurer of the State, certifying that to the best of their knowledge this Supplemental Official Statement (including EXHIBIT I hereto), as of the date of this Supplemental Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the State with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRs"). The notices of material events will be filed by the State with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in Appendix A to this Supplemental Official Statement, "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the purchasers in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Pursuant to existing continuing disclosure agreements, the State has filed the annual information required. For fiscal year 2002, the State satisfied its covenant with respect to continuing disclosure by sending notice to the NRMSIRs that it was unable to provide the fiscal year 2002 annual report by June 30, 2003. The State's fiscal year 2002 annual report was sent to the NRMSIRs on January 6, 2004. For fiscal year 2003, the State satisfied its covenant with respect to continuing disclosure by sending notice to the NRMSIRs that it was unable to provide the fiscal year 2003 annual report by June 30, 2004. The State's fiscal year 2003 annual report was sent to the NRMSIRs on December 28, 2004. The State's fiscal year 2004 annual report was sent to the NRMSIRs on April 12, 2005. The State's fiscal year 2005 annual report was sent to the NRMSIRs on January 19, 2006. The State's fiscal year 2006 annual report was sent to the NRMSIRs on February 21, 2007.

ADDITIONAL INFORMATION

The Commissioner of Finance and Management reports on the financial conditions for the State including its operations and balances, receipts, and disbursements of the various funds in the Annual Financial Report. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. George B. "Jeb" Spaulding, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, telephone: (802) 828-2301 or from Mr. J. Chester Johnson, Chairman, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022, Telephone: (212) 521-4090.

It is the current policy of the State to provide copies of the General Obligation Bond Law, prior Official Statements of the State and the State's annual financial reports upon request. The State reserves the right at any time to change this policy to comply with law or for any other reason.

Several discussions throughout this Supplemental Official Statement are based, in part, on projections and forward looking statements related to fiscal year 2008 and subsequent years. No assurance can be given that the budget, the revenue and expenditure estimates or the forward-looking statements discussed will be realized. The accuracy of the budget, the revenue and expenditure estimates and forward statements related to fiscal years 2008 and 2009 cannot be verified until after the close of the applicable fiscal year and the release of the audited financial statements related thereto. In addition the accuracy of all projections and forward statements is dependent on a number of factors including (1) general economic factors that affect local source revenues such as individual income taxes and sales and use taxes, (2) general factors that affect the United States economy and the State economy, and (3) the accuracy of data relating to employment, inflation and income growth in the United States and in the State.

Any statements in the Supplemental Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Supplemental Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

This Supplemental Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose.

By: /s/ James H. Douglas
Governor

By: /s/ George B. "Jeb" Spaulding
Treasurer

Dated: December 12, 2007

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APPENDIX A

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of $29,195,000 General Obligation Refunding Bonds, 2007 Series F (the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, to refund certain outstanding bonds of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

"Transmission Agent" shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each Repository. The current Transmission Agent is listed on Exhibit B attached hereto.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), commencing with the report for the fiscal year ended on June 30, 2007 (to be filed no later than June 30, 2008), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to each Repository or the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available;

Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major Government Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State dated November 14, 2007; and

any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults.

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties.

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties.

(v) substitution of the credit or liquidity providers or their failure to perform.

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(vii) modifications to rights of Bondholders.

(viii) optional, contingent or unscheduled calls of bonds.

(ix) defeasances.

(x) release, substitution or sale of property securing repayment of the Bonds.

(xi) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) If the Issuer determines that the occurrence of a Listed Event is material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the terms of the Bonds.

SECTION 6. Alternative Method for Reporting. The State may satisfy its obligations to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the SEC, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. Termination of Reporting Obligation. The Issuer’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the State Treasurer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided pursuant to the terms of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default pursuant to the terms of the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: December __, 2007

STATE OF VERMONT, as Issuer

By: ______________________________________
George B. "Jeb" Spaulding
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: $29,195,000 General Obligation Refunding Bonds, 2007 Series F

Date of Issuance: December ___, 2007

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated December ___, 2007. [The Issuer anticipates that the Annual Report will be filed by ________________.]

Dated:______________

STATE OF VERMONT, as Issuer

By____

EXHIBIT B

List of Nationally Recognized Municipal Securities Information Repositories and Transmission Agent at the time of execution and delivery of the Continuing Disclosure Agreement.

This list may change from time to time. The Continuing Disclosure Agreement requires that information and notices be provided to each Repository. This list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.htm.

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/rates/municontacts.html
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
http://www.MuniFILINGS.com
Email: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
http://www.interactivedata-prd.com
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
http://www.disclosuredirectory.standardandpoors.com
Email: nrmsir_repository@sandp.com

Transmission Agent

Disclosure USA
P.O. Box 684667
Austin, Texas 78768-4667
www.DisclosureUSA.org

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APPENDIX B

FORM OF OPINION OF BOND COUNSEL

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PROPOSED FORM OF OPINION OF BOND COUNSEL

EDWARDS ANGELL PALMER & DODGE LLP
111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

(Date of Delivery)

The Honorable James H. Douglas
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

$29,195,000
State of Vermont
General Obligation Refunding Bonds,
2007 Series F
Dated Date of Delivery

We have acted as bond counsel to the State of Vermont (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from Vermont personal income taxes and Vermont corporate income taxes. We express no opinion regarding any other Vermont tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Vermont.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 (the "Code") that

must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

EXHIBIT I

OFFICIAL STATEMENT, DATED NOVEMBER 14, 2007 OF THE STATE OF VERMONT RELATING TO ITS $35,000,000 GENERAL OBLIGATION BONDS, 2007 SERIES D

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New Issue – Book Entry Only

Ratings: Moody's: Aaa
Fitch: AA+
S&P: AA+
(See "RATINGS" herein)

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

$35,000,000
STATE OF VERMONT
General Obligation Bonds
2007 Series D

Dated: Date of Delivery **Due: July 15, as shown below**

The 2007 Series D Bonds (the "Bonds") will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $5,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on January 15 and July 15 commencing July 15, 2008. The Bonds will be subject to redemption prior to maturity as more fully described herein.

The Bonds will be general obligations of the State of Vermont and the full faith and credit of the State are pledged to the payment of principal of and interest on the Bonds. See "THE BONDS – Security for the Bonds" herein.

2007 Series D Bonds

Due July 15	Principal Amount	Interest Rate	Yield	CUSIP Number†	Due July 15	Principal Amount	Interest Rate	Yield	CUSIP Number†
2008	$1,200,000	4.125%	3.37%	924258 QM1	2018	$2,300,000	4.00%	3.97%*	924258 QX7
2009	1,200,000	4.125	3.37	924258 QN9	2019	2,300,000	4.00	4.13	924258 QY5
2010	1,200,000	3.50	3.31	924258 QP4	2020	2,300,000	4.375	4.25*	924258 QZ2
2011	1,200,000	4.00	3.37	924258 QQ2	2021	2,300,000	4.375	4.35*	924258 RA6
2012	1,200,000	4.00	3.44	924258 QR0	2022	2,300,000	4.50	4.41*	924258 RB4
2013	1,200,000	5.25	3.51	924258 QS8	2023	2,300,000	4.625	4.44*	924258 RC2
2014	1,200,000	4.00	3.58	924258 QT6	2024	2,300,000	4.625	4.50*	924258 RD0
2015	1,200,000	4.00	3.66	924258 QU3	2025	2,300,000	4.50	4.53	924258 RE8
2016	1,200,000	4.00	3.75	924258 QV1	2026	2,300,000	4.50	4.57	924258 RF5
2017	1,200,000	5.00	3.85	924258 QW9	2027	2,300,000	4.50	4.61	924258 RG3

* Priced at the stated yield to the July 15, 2017 redemption price of 100%. See "THE BONDS – Optional Redemption" herein.

The Bonds are offered subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, and to certain other conditions referred to herein and in the Notice of Sale. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about November 28, 2007.

MERRILL LYNCH & CO.

November 14, 2007

STATE OF VERMONT

ELECTED OFFICERS

Name

JAMES H. DOUGLAS, *Governor*

BRIAN E. DUBIE, *Lieutenant Governor*

GEORGE B. "JEB" SPAULDING, *Treasurer*

DEBORAH L. MARKOWITZ, *Secretary of State*

THOMAS M. SALMON, *Auditor of Accounts*

WILLIAM H. SORRELL, *Attorney General*

BOND COUNSEL
Edwards Angell Palmer & Dodge LLP
Boston, Massachusetts

FINANCIAL ADVISOR
Government Finance Associates, Inc.
New York, New York

In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. The securities described in this Official Statement have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Vermont since the date hereof.

This Official Statement contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

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STATE OF VERMONT

$35,000,000
GENERAL OBLIGATION BONDS
2007 SERIES D

INTRODUCTORY STATEMENT

This Official Statement of the State of Vermont (the "State"), including the cover page and appendices, is provided for the purpose of presenting certain information relating to the State in connection with the sale of $35,000,000 aggregate principal amount of its General Obligation Bonds, 2007 Series D (the "Bonds"). See "THE BONDS" herein for a description of the Bonds and the security therefor.

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all reference to the definitive forms of the Bonds and their statutory authority.

Payment and Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds. See "THE BONDS – Security for the Bonds" herein.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will mature on July 15 in each of the years as set forth on the cover page of this Official Statement. The Bonds will bear interest from their date until their maturity at the rates per annum set forth on the cover page of this Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of $5,000 or any integral multiple thereof on the records of the Depository Trust Company, New York, New York ("DTC") and its Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Principal and premium, if any, when due, will be payable to each registered owner at the principal office of Chittenden Trust Company, Burlington, Vermont, Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on January 15 and July 15 commencing July 15, 2008, by check or draft mailed by the Paying Agent to each registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books of the State maintained by the Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds will be paid in immediately available funds, directly to DTC or such nominee as registered owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by Participants of DTC will be the responsibility of such Participants and other nominees of beneficial owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Authorization and Purpose

The Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated ("General Obligation Bond Law") and pursuant to specific Acts of the General Assembly. The following statutes and Acts of the General Assembly set forth the capital purposes of the State for which the Bond proceeds are expected to be applied, provided that the State expects that under certain circumstances proceeds of the Bonds to the extent not expended for the purposes referenced below, may be expended for such capital projects as may be authorized by the General Assembly. See "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization." Under Vermont law the State Treasurer is authorized to transfer unspent proceeds from the sale of bonds, including the

Bonds, from the projects for which such bonds were initially issued, to other capital projects of the State authorized by the General Assembly. The State also expects to issue in December 2007 $11,000,000 General Obligation Bonds, 2007 Series E (Citizens Bonds) (the "Series E Bonds") to finance additional capital projects. The State is also reviewing a possible refunding bond issue, the timing and amount of which will be subject to market conditions.

Act 52 of 2007

Section 1	State Buildings – Various Projects	$10,557,881
Section 2	Taxes – Digital Mapping Equipment	100,000
Section 3	Health and Public Safety Laboratories – Essex	7,500,000
Section 4	Human Services – Various Projects	100,000
Section 5	Judiciary – Security Improvements	270,000
Section 6	Building Communities Grants	1,260,000
Section 7	Commerce and Community Development – Various Projects	405,000
Section 8	Education – Various School Construction Projects	10,310,119
Section 8a	Austine School – Building Renovations	50,000
Section 11	Natural Resources – Various Projects	2,000,000
Section 14	Criminal Justice– Firing Range Projects	167,000
Section 15	Agriculture, Food and Markets – Various Projects	2,080,000
Section 17	Vermont Interactive Television – Equipment Upgrade	100,000
Section 18	Vermont Rural Fire Protection – Dry Hydrant Program	100,000
		$35,000,000

Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds.

Pursuant to State law, the Treasurer of the State is required to pay the principal of, and interest on, the Bonds as the same become due without further order or authority. The amount necessary each year to pay the maturing principal of, and interest on, the Bonds is required to be included in and made a part of the annual appropriation bill for the expense of State Government. State law requires that principal of, and interest on, the Bonds that may come due before appropriation for the payment thereof has been made are to be paid from the General Fund, the Transportation Fund or other applicable special fund.

For the payment of principal of and interest on general obligation indebtedness, including the Bonds, the State has the power to levy taxes, including taxes on all taxable property and income in the State, without limitation as to rate or amount. For a description of the State's sources of revenues thereof, see "STATE FUNDS AND REVENUES" and for a more complete discussion of the authorization of general obligation bonds and the provisions for payment thereof, see "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization" herein.

Record Date

The record date for each payment of interest is the last business day of the month preceding the interest payment date, provided that, with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners at least ten (10) days before the special record date.

Optional Redemption

The Bonds maturing on and prior to July 15, 2017 will not be subject to redemption prior to maturity.

The Bonds maturing after July 15, 2017 will be subject to redemption prior to maturity, at the option of the State, on and after July 15, 2017, either in whole or in part at any time and by lot within a maturity, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

If less than all of the Bonds of a particular maturity are called for redemption, the Bonds within such maturity to be redeemed will be selected by DTC or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the State by lot in such manner as the State in its discretion may determine.

Notice of redemption of Bonds, specifying the maturities and dates of Bonds to be redeemed, the redemption date, the redemption prices, expressed as a percentage of the principal amount and the place or places of payment of the redemption price and the numbers and portions of the Bonds to be redeemed, shall be mailed, postage prepaid, by the Paying Agent not more than 60 days and not less than 30 days prior to the date set for redemption to the registered owners of any Bonds or portions of Bonds to be redeemed, at their last addresses appearing on the registry books kept by the Paying Agent. Failure to mail such notice to the owner of any Bond will not affect the redemption of any other Bonds. If moneys for the redemption are held by the Paying Agent on the redemption date and if notice of the redemption shall have been duly mailed, then from and after the redemption date interest on the Bonds (or the portions thereof) called for redemption shall cease to accrue.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard and Poor's highest rating: AAA. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Bonds of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action that is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent to DTC only.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The State cannot and does not give any assurance that DTC will distribute to Participants, or that Participants or others will distribute to Beneficial Owners, payments of principal of, interest and premium, if any, on the Bonds, or any other notice or that they will do so on a timely basis or will serve or act in the manner described in this Official Statement. The State is not responsible or liable for the failure of DTC or any Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

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STATE GOVERNMENT

Governmental Organization

The Constitution of Vermont provides for three traditional branches of Government—the Legislative, the Executive and the Judicial. The elected officers of the State are the Governor, Lieutenant Governor, Treasurer, Secretary of State, Auditor of Accounts and the Attorney General. All are elected at general elections for a term of two years, and each may succeed himself or herself in office with no limitation on terms.

The Legislative Branch: The bicameral General Assembly of Vermont convenes biennially with an adjourned session in the biennium. The House of Representatives has 150 members and the Senate has 30 senators. Members of the House of Representatives and Senate are elected for two-year terms in each general election. Bills for the raising of revenues must originate in the House of Representatives but may be amended or rejected by the Senate.

The Executive Branch: All constitutional officers of the State reside in the Executive Branch. The Governor is responsible for the faithful execution of all laws enacted by the Legislature and the management of the major departments and agencies of the Executive Branch, briefly described as follows:

(1) Agency of Administration: The Agency of Administration centralizes and integrates certain administrative and fiscal functions and activities of State government. The Agency is composed of the Office of the Secretary, the Department of Taxes, the Department of Finance and Management, the Department of Human Resources, the Department of Information and Innovation, the Department of Libraries, the Office of Healthcare Reform Implementation, the Office of Strategic Change and the Department of Buildings and General Services.

(2) Agency of Transportation: The Agency of Transportation consists of four functional divisions that are responsible for the planning, design, construction, maintenance and operation of state highways, railroads, and airports, plus the Department of Motor Vehicles, which is responsible for the administration of motor vehicle registrations, drivers' licenses and other motor vehicle regulations. The Agency of Transportation is responsible for the administration and collection of the motor vehicle purchase and use and motor fuel taxes as well as motor vehicle registrations and renewals and driver's license fees.

(3) State Board of Education: The State Board of Education consists of seven persons, all of whom are appointed by the Governor with the advice and consent of the Senate. The State Board of Education has supervision over and management responsibilities for the Department of Education and the public school system and has the power to establish such advisory commissions as in the judgment of the Board will be of assistance to it in carrying out its duties. The Board has the authority to enter into agreements with school districts, municipalities, states and the United States for services, educational programs, or research projects; to examine and determine all appeals made to it; and to make regulations governing the certification and qualification of all public school teachers.

(4) Agency of Natural Resources: The Agency of Natural Resources consists of the Office of the Secretary, Department of Fish and Wildlife, the Department of Forests, Parks and Recreation, and the Department of Environmental Conservation. The Natural Resources Board is attached to the Agency of Natural Resources for the purposes of administrative support.

(5) Agency of Commerce and Community Development: The resources of the Agency of Commerce and Community Development are utilized to foster continued improvement in the Vermont economy and provide assistance to Vermont communities in their efforts to plan for the future. The Agency is composed of the Department of Economic Development, the Department of Housing and Community Affairs, the Division for Historic Preservation, the Department of Tourism and Marketing, the Office of the Chief Marketing Officer and Vermont Life Magazine.

(6) Agency of Human Services: The Agency of Human Services administers the programs responsible for meeting the human service needs of Vermont citizens. The Agency is composed of the Office of the Secretary, the Departments of Disabilities, Aging and Independent Living (DAIL),

Corrections (DOC), Health (DOH), Mental Health (DMH), Children and Families (DCF), the Office of Health Access (OVHA) and the Developmental Disabilities Council.

(7) Other Agencies and Departments: There are a number of other agencies and departments responsible for other service areas within the Executive Branch as follows: the Agency of Agriculture, Food and Markets; the Department of Banking, Insurance, Securities and Health Care Administration; the Department of Labor; the Department of Liquor Control; the Military Department; the Defender General; the Department of Public Safety; the Department of Public Service and the Public Service Board.

The Judicial Branch: The Judicial Branch of the State is composed of a Supreme Court, and Superior, District, Family, Environmental, and Probate Courts and the Judicial Bureau. The Supreme Court has a Chief Justice and four Associate Justices. There are 31 Trial Judges sitting in the Superior, District and Family Courts, including one Administrative Judge. The Family Court also has five magistrates. The Environmental Court has two Judges. All judges are appointed by the Governor with the advice and consent of the Senate for six-year terms. The Judicial Bureau has two hearing officers appointed by the Administrative Judge. The Probate Court has eighteen districts in the State, each with a Probate Judge elected by the electorate of their respective districts for terms of four years.

There are fourteen counties in the State. Their administration consists of two Assistant Judges of each Superior Court, one or two Judges of Probate, a State's Attorney and a Sheriff, all of whom are elected quadrennially. County Clerks and County Treasurers are appointed by the Assistant Judges. County government is more titular than executory in that the major responsibilities and functions of government pass directly from the State to the cities and towns.

STATE ECONOMY

General

Vermont, which is known as the Green Mountain State, was first settled in 1666 when the French built Fort St. Anne on Isle LaMotte in Lake Champlain. The first English settlement was in 1690 at a location that is now the southern Vermont town of Vernon. Vermont ratified the United States Constitution on January 10, 1791 and joined the Union as the fourteenth State on March 4 of the same year. Rural in character, Vermont measures 9,615 square miles (including land and water area), ranking the State 45th among the 50 states. In terms of land area only, Vermont's 9,249 square miles ranks it 43rd among the 50 states. Vermont's population as measured by the 2000 Census on April 1, 2000 was 608,827, a ranking of 49th among the fifty states, which is unchanged since the 1990 Census (U.S. Bureau of the Census). The State capital is Montpelier, with a population of 8,035 in 2000. Population counts as of April 1, 2000 indicate the State's largest cities and towns are Burlington, population 38,889; Essex, population 18,626; Rutland, population 17,292; Colchester, population 16,986; and Bennington, population 15,737.

Demographic Trends

Mid-year estimates from the Census Bureau for 2006 show that Vermont's population grew by an estimated 1,521 persons between 2005 and 2006, representing a 0.2% rate of increase. That rate of increase was slower than the 1.0% rate of increase in population for the nation as a whole between 2005 and 2006, and slightly faster than the 0.1% rate of population increase experienced for the New England region. Vermont experienced a growth of an estimated 61,200 persons (rounded) between 1990 and 2006, representing an average annual rate of 0.6% per year. That represented a slightly faster annual rate of increase over the 1990-2006 timeframe than the 0.5% rate of growth per year that was experienced by the New England region as a whole. However, Vermont's rate of population increase over the period was somewhat slower than the average national growth rate of 1.1% per year over the same period.

Table 1
Comparative Population Growth
Vermont, New England, United States
1970-2006

	----------Vermont----------		----------New England[1]----------		----------United States---------	
Year	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]
2006	624	0.2%	14,270	0.1%	299,398	1.0%
2005	622	0.3	14,240	0.1	296,507	1.0
2004	621	0.4	14,222	0.2	293,638	1.0
2003	619	0.4	14,194	0.4	290,796	0.9
2002	616	0.5	14,126	0.6	288,126	1.0
2001	613	0.5	14,043	0.7	285,227	1.4
2000	610	0.8	13,953	0.5	281,422	1.2
1990	565	1.0	13,229	0.7	248,710	0.9
1980	513	1.4	12,372	0.4	227,225	1.1
1970	446	--	11,878	--	203,792	--

1 The New England states are: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
2 All population estimates are as of July 1 of the year indicated.
3 For 2006, 2005, 2004, 2003, 2002 and 2001, the annual percentage increase is calculated versus the previous year. For 1980, 1990 and 2000, the annual percentage increase is the average annual increase during the preceding ten-year period.
SOURCE: U.S. Department of Commerce, Bureau of the Census.

Data from the Census Bureau indicate that in 2006 the median age of the Vermont population was 40.6 years, 4.2 years older than the national average median age of 36.4 years. Among the various age groupings, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 78.5% of the State's population versus 75.4% of the total population of the United States) in 2006. The State also had a concentration that was slightly higher than the New England regional average in that over 18 years age group in 2006 (at 78.5% for Vermont versus 77.4% for the New England region). Vermont had a below average age concentration in the under 5 years age category (at 5.3% of the State's total population) relative to both the New England average (at 5.8% of the New England regional population) and U.S. average (at 6.8% of the total U.S. population). The percentage of Vermont's population in the over 65 years age category (at 13.3% of the State population) in 2006 was slightly higher than that for the U.S. population as a whole (at 12.4% of the U.S. population overall) in 2006, and roughly the same as the New England average (at 13.3% of the total). In addition, the percentage of Vermont's population in 2006 aged 45-64 years (at 29.3% of the State's population) was significantly higher than both the percentage of the New England regional population (at 26.9% of the total) and the U.S. population overall (at 25.0% of the total) in 2006. Vermont had an equal percentage of its population in the 85 years and older category (at 1.7% of the State total) relative to the U.S. population (at 1.7% of the U.S. population) in 2006, but a slightly lower percentage than the New England region overall (at 1.9% of the New England regional population) in 2006.

The Vermont population in 2006 had a significantly higher level of educational attainment than the U.S. population as a whole according to the latest data from the U.S. Bureau of the Census (March 2006). Table 2 shows that a total of 89.8% of Vermont's residents aged 25 years and over have completed a high school education, a level that ranks Vermont 6th among the 50 states, and more than five percentage points higher than the national average of 84.1% of the U.S. population aged 25 years and older. In addition, a total of 32.4% of Vermont residents over 25 years of age have received a four-year college degree or higher, which ranks Vermont 8th highest among the 50 states. The percentage of Vermont residents aged 25 years and over with a four-year college degree exceeds the comparable national average of 27.0% of U.S. residents aged 25 years and over with a four-year college degree by over five percentage points.

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of March 2006

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	89.8%	6th	84.1%
COLLEGE:			
Bachelor's Degree or More	32.4%	8th	27.0%

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Data from the 2000 Census (the latest data available) also indicate that Vermont's population remains primarily rural. A total of 61.8% of the State's population lived outside of the State's single metropolitan area—the highest percentage among the 50 states. Vermont's percentage as of April 1, 2000 was over double the national average percentage of persons living outside of metropolitan areas (27.3%), and was over three times the average for the Northeast U.S.

Table 3
Metropolitan vs. Non-Metropolitan Area Populations
As of April 1, 2000

	Metropolitan Population		Non-Metropolitan Population	
	Total (in Thousands)	Percentage	Total (in Thousands)	Percentage
United States	222,361	79.0%	59,061	21.0%
Northeast	45,226	80.6	8,368	19.4
New England	11,220	84.4	2,702	15.6
Vermont	232	38.2	376	61.8

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Property Valuation

The Vermont Department of Taxes, through its Division of Property Valuation and Review, annually conducts a study of all the grand lists (i.e., tax rolls) prepared by the municipalities in the State. The purpose of this study, commonly known as the "Equalization Study," is to derive estimates of the fair market value of all of the property in the State. These values are then used as one of the primary factors to determine each municipality's school property tax rates. Since most municipalities' grand lists are not at the statutorily required 100 percent fair market value standard in any given year, the study attempts to bring all municipalities' grand lists to 100 percent of market value, thereby "equalizing" all values statewide.

In general, equalized property values were determined by comparing grand list values to real estate sales or property appraisals and deriving the ratio representing the level of appraisal for each municipality. The resulting estimates of full property value in each municipality were then aggregated to derive an estimate of the market value of all property in the State.

Changes to Vermont law due to Act 178 of the 1996 Session of the General Assembly (changing the agricultural and forest taxation program to reflect the value of property based on its "Current Use") and Act 60 of the 1997 Session (changing the method of education financing in Vermont) altered the nature of determining the value of taxable property under Vermont law. The changes had the following effects: (1) the Current Use program requires municipalities to assess property enrolled in that program at their "use" value as opposed to market value;

and (2) the definition of taxable property now reflects only the total fair market value or use value of property that is subject to taxation for school purposes.

The State's Current Use program provides for property taxation of active agricultural land, farm buildings, conservation and managed forest land at their productive use value rather than fair market value. Use value is almost always lower than market value resulting in lower values included in the grand lists.

Changes in the composition of the grand list under Act 60 also reduced the value of total taxable property for funding schools. First, machinery and equipment and inventory were exempted from the education property tax. Second, property was excluded from the taxable property value (for a period up to 10 years) for locally voted exemptions and stabilization agreements approved prior to July 1, 1997.

Table 4 sets forth the fair market value of all taxable property in the State as certified by the Division of Property Valuation and Review from 1990 to 1995 and comparable estimates for 1997 through 2006. The State experienced a significant increase in estimated fair market value between 2002 and 2006 in part due to strong price appreciation in residential and second home markets. The estimates from 1997 – 2006 include an estimate of the fair market value of property enrolled in the Current Use Program. These later values have been estimated by, but have not been certified by, the Division of Property Valuation and Review of the Vermont Department of Taxes.

Table 4
Equalized Property Values
1990–2006

Equalization Date As of April 1,	Fair Market Value
2006**	$72,513,809,335
2005**	64,306,356,880
2004**	56,756,181,626
2003**	51,168,536,723
2002**	46,929,258,396
2001**	43,942,727,721
2000**	41,358,590,703
1999**	39,053,369,590
1998**	38,967,094,160
1997**	38,399,375,459
1995*	37,558,139,758
1993*	36,471,723,016
1992	36,766,102,513
1991	35,286,508,007
1990	31,300,748,717

* After 1992 and beginning with 1993, the Fair Market Value and Assessed Value of all taxable property in the State is equalized every two years. Beginning in 1998, equalization studies were again conducted annually by the Division of Property Valuation and Review.

** Estimated, based on an estimate for the difference between the Fair Market Value and the Use Value of property enrolled in the Current Use Program. The estimate of the amount of the exemptions for property enrolled in the Current Use Program was $744.8 million in 1997, $792.3 million in 1998, $816.7 million in 1999, $866.1 million in 2000, $924.4 million in 2001, $1,157.9 million in 2002, $1,205.0 million in 2003, $1,369.1 million in 2004, $1,575.7 million in 2005, and $1,844.7 million in 2006.

SOURCE: Vermont Tax Department, Division of Property Valuation and Review, Annual Report.

Economic Activity

The opinions set forth in this section are provided by Economic & Policy Resources, Inc., Williston, Vermont, based upon such firm's independent evaluation of economic information and trends in the State of Vermont and the United States. The firm serves as a consultant to the State of Vermont with responsibilities as to matters of the analysis of economic trends and economic forecasting as well as providing technical forecasting services to the State with respect to the short-term, consensus revenue estimating process performed pursuant to Vermont statute.

The description of the economic forecast for the United States and Vermont is based on the same underlying forecast contained under "The Economy.com National Economic Forecast Assumptions" herein that is provided by Moody's Economy.com of West Chester, Pennsylvania. The economic forecasts are completed in conjunction with the New England Economic Partnership (NEEP), a nonprofit economic forecasting group with participating members in all six New England states.

The U.S. Economic Situation: The unfolding weakness in housing and the recent sharp tightening in credit conditions have weakened the U.S. economy's expansion, which is currently in its seventh year. The Federal Reserve's (the "Fed") half point cut in short-term interest rates in September 2007 appears thus far to have had a calming effect on financial markets. Except for the accumulating inventory of unsold houses and poor housing sales and starts data, recent benchmarks on the performance of the U.S economy have been relatively positive.

For example, September retail sales, excluding autos and gasoline, increased after falling in August. Vehicle sales similarly rebounded during September, and the manufacturing sector grew following a small dip in August. Inventories remain very lean, and the trade deficit narrowed for the third consecutive month during September—assuring that export growth will be a solid contributor to U.S. output growth over the second half of calendar 2007. As a result, Gross Domestic Product for the third quarter was still growing significantly at a rate of 3.0%. This third quarter growth, however, occurred largely at the beginning of the quarter. Considering a worsening housing recession, tightening of credit conditions since mid-August, and the recent spike in oil prices to more than $90 per barrel oil just prior to the new heating season, consumer spending is expected to slow from its healthy third quarter pace. With companies increasingly more cautious, there is little chance that output growth for the entire second half of calendar year 2007 will be much above a very restrained 2.0% level.

The Federal Reserve over the next three to six months faces difficult policy decisions. If the Fed holds rates steady or cut them too little, it runs the risk that the economy could fall into a preventable recession. If the Fed cuts rates too much, it runs the risk of rekindling inflation. The Fed's action to cut short-term rates by one-half percentage point in mid-September provided a boost for investors' psychology at that time as they began to better understand the risks associated with the subprime lending crisis. The rate cut also was important in that it provided assurance to capital markets that the Fed was fully and actively engaged in dealing with effects of the mid-August freeze in short-term debt markets.

As a result of Fed actions discussed above, the risk of an economic recession resulting from a short-term liquidity crisis has subsided substantially. At the beginning of the month of September, the probability of a U.S. economic recession within six months had risen to as high as 50%. While credit markets still remain unsettled, the risk of recession has recently fallen to the level of only a one in three chance. While still elevated, that level of recession risk is much more manageable than was the case in early September.

The negative impact on economic activity due to the subprime lending crisis and the further deterioration in housing markets is still unknown. Most forecasters expect that the U.S economy will make it through the subprime-housing market downturn and the expansion will emerge, following an extended period of sluggishness, essentially intact. This expectation is based on: (1) strong global demand for U.S. products, which is expected to boost U.S. exports; (2) continuing strong U.S. corporate profitability, which is expected to give U.S companies the financial strength to add capacity and hire when needed; (3) a resilient consumer sector, which is needed to support roughly two-thirds of all economic activity; and (4) foreign investors who are expected to continue to make substantial investments in the U.S. to fund the economy's credit needs. It is during this extended period of housing-induced economic sluggishness that the risks to the U.S economy will be the greatest. With no bottom to the housing market yet in sight, the current expectations are that the period of vulnerability could last as long as into mid-calendar year 2009.

Foremost among risks to the above expectations are: (1) a more significant downturn in household consumption tied to the reduced wealth effects resulting from declining housing prices, and (2) a negative shift in investor psychology. The threat to the economy from reduced consumer spending has only just begun. Investor concerns about credit quality and the potential for even bigger losses than have already been experienced or priced into securities markets threatens the continued flow of available and affordable credit. Significant increases in the borrowing costs of businesses and consumer borrowers and a larger than expected retrenchment in household spending have the potential to push the economy into a recession.

The recent loss of the subprime financing option, which was one of the more significant financing mechanisms for supporting housing market activity, means that the pace of any prospective recovery in the housing market will likely be subdued. The pace of recovery in housing will likely be neither a "V" (referring to a sharp decline and an equally sharp or fast recovery), nor a "U" (referring to a still significant but restrained recovery particularly near the market bottom). Instead any housing recovery is likely to be more "L-shaped" in character, where the relatively sharp decline in housing market conditions now being experienced would be followed by an historically modest and halting housing recovery that is restrained by a relative lack of affordable credit flowing into mortgage lending.

Much tighter credit conditions in mortgage lending will result in fewer loans being made and higher borrowing costs on loans that are funded. Tightening credit requirements for residential mortgages have already occurred for many subprime borrowers as their unconventional mortgages have rate re-set or are close to rate re-setting. Lenders have been reviewing borrowers' loan applications more critically—even for borrowers with good credit. Tighter, more expensive credit means reduced housing market activity and slower rates of overall economic growth will likely be the norm for the next several years. Housing market activity is expected to be below what it had been in the recent housing boom years or during the late 1990s.

Housing market declines will likely worsen further before any improvements. The outlook includes the expectations that: (1) median home sales prices will decline significantly over the next one to two years; (2) credit will be much more expensive and harder to obtain for mortgages; and (3) the workout of the subprime lending crisis—especially now that several regulating agencies are involved—will slow activity in housing and housing-related sectors (e.g. construction, financial and legal services, retail sales at home improvement stores, etc.) for a protracted period. As a result, it is unlikely that the U.S. economy will even approach its output growth potential of 3.5% per year until calendar year 2009 or beyond.

The Vermont Situation: As the housing market correction has progressed in Vermont over the last several quarters, the State's economy has not been able to post output and job growth rates consistent with its long-term output and job growth record. Just as the State's economy benefited to a greater degree from the housing market boom of the late 1990s and early 2000s, must of which reflected second home activity, the current housing market correction is likely to increasingly negatively impact economic activity over the next six to eight quarters. Since the end of calendar year 2005, output growth in Vermont has been subdued, and payroll job growth since that time has exceeded the average annual rate of 1.0% in only two quarters. The value of housing construction since its peak early in calendar year 2006 has fallen by 52.6% through the month of August—a swing in residential construction spending of $373 million. That decrease will exert a drag on job growth, income growth, and household spending over the next year and one-half.

As housing construction activity has declined, housing prices have softened as measured by the index maintained by the Office of Federal Housing Enterprise Oversight (OFHEO). The rate of price appreciation statewide has fallen measurably from 12.9% on a year-over-year basis as of the second quarter of calendar year 2006 to a 3.7% year-over-year rate of increase through the second quarter of calendar year 2007. Other evidence on housing prices indicates that prices are declining in some parts of the State. The Case-Shiller repeat purchase housing price index for the second quarter of calendar year 2007 for the Burlington-South Burlington metro area shows that housing prices in the northwest corner of the State have actually declined by 2.4% on a year-over-year basis—the second consecutive quarterly price decline for the Burlington-South Burlington region after double-digit price increases as recently as the fourth quarter of calendar 2005–first quarter of calendar 2006. Declining housing starts and sales, and falling housing prices also will dampen household spending because significant purchases of items such as appliances and furnishings typically occur within the first two years of the purchase of a new or existing house. Construction jobs also will recede during the housing market correction because residential construction projects now underway will not likely be replaced after completion with as many new projects.

One source of offsetting strength for the Vermont economy over the next several years should come from increased levels of export activity. Due to the recent declining value of the U.S. dollar, U.S. and Vermont products have become increasingly more price competitive in international markets. In addition, the substantial decline in the value of the U.S. dollar versus the value of the Canadian dollar has made Vermont an attractive destination for Canadian visitors. While the falling value of the U.S. dollar versus other currencies has its limits if the U.S. dollar and U.S. assets are to remain the currency and investments of choice for global investors, this period may be a time where Vermont and U.S. manufacturers enjoy the most competitive playing field for price in a generation.

On a sector-by-sector basis, the labor market data show Vermont continues to make progress—but progress remains historically restrained relative to the mid-1990s labor market recovery-expansion. Over the first 53 months of the current labor market recovery-expansion, total and private sector payroll job growth has increased at only about one-half of the average rate experienced during the early- to mid-1990s. Overall, a total of six of the State's eight private sector NAICS[1] super-sectors are expanding. The two lagging sectors that remain in only a recovery mode continue to be Manufacturing and Leisure and Hospitality. The lack of any significant job recovery in the State's Manufacturing sector is not necessarily an indication of sector weakness but is more an indication of the direct effects an increasingly competitive global economy has had on the need for productivity gains in manufacturing as opposed to job gains. The Leisure and Hospitality sector experienced a very difficult first half of calendar year 2007 due to warm and dry weather and persistently high gasoline prices, which hurt the State's 2006–07 ski season and caused a ten-year low in skier visits. The energy price spike is directly tied to the now six year "rough patch" for Leisure and Hospitality, beginning with the tragic terrorist attacks of September 11, 2001 and running through poor weather that curtailed the most recent winter ski season.

The historically restrained character of Vermont's labor market recovery-expansion is not a condition that is specific to the State, but is a function of the New England region's demographics. The labor market conditions reflect more of a problem with labor force supply than demand. This observation is supported by the State's still relatively low unemployment rate relative to the U.S. and New England averages. Employers throughout the State report they are finding it increasingly difficult to find qualified candidates to fill the more than 3,000 job openings that recently were advertised as being available on-line throughout the State.

Despite the slowdown in housing, plans for facilities expansion and seasonal home development at several of the State's major resort areas continue. Various news reports indicate that although second home development is still occurring, it is going on at a reduced rate at most areas reflecting current housing and financial market concerns, but a significant number of facilities improvement and upgrade projects are still occurring statewide. Trail improvements, trail expansions, continued expansion of snowmaking capabilities, and facilities upgrade projects are occurring at nearly all of the State's major resorts. These are designed to meet the ever increasing demands of today's traveling public, where the convenience of slope-side accommodations, fast and comfortable lift capacity, and high quality skier services and amenities are increasingly being demanded by the skiing and snowboarding public. Given the powerful underlying demographics associated with second home demand and the fact that virtually all of the State's major resorts have completed long-term development plans to expand their accommodations base, any slowdown in second home development-sales activity is expected to be a pause that is expected to end as the tight financial-credit market conditions ease and the economy works its way through its housing market downturn.

The above situation is reflected in the data describing Vermont's year-over-year comparative job change performance and rank among the 50 states and the six New England states through August of 2007 (the latest month where comparative data are available). The data show that Vermont ranks in the bottom third of the New England states in year-over-year job growth in the two major job change aggregates, including total payroll job growth and total private sector payroll job growth and ranks 43rd nationally in both categories. Regarding the NAICS super-sectors, Vermont ranks 2nd in the New England region in year-over-year job change in Manufacturing (21st nationally), Information (14th nationally—corresponding to the State's highest national ranking), and Financial Services (27th nationally) through the month of August. The State also ranks 3rd among the New England states in the year-over-year job change in Construction (32nd nationally), and 4th in Trade, Transportation, and Utilities (39th nationally) and in year-over-year job change in Government (36th nationally). The State ranks near the bottom regionally and in the U.S. in year-over-year job growth in Professional and Business Services (45th nationally) and Education and Health Care (46th nationally). The only top ten relative rankings for any New England state in any major NAICS sector is found in the Financial Services sector and the Professional and Business Services sector, where the state of Rhode Island ranks 7th and 10th in the country, respectively. Vermont ranks 5th in the New England region and 45th nationally in the year-over-year change in the Leisure and Hospitality sector.

[1] "NAICS" refers to the North American Industry Classification System.

The Moody's Economy.com National Economic Forecast Assumptions: The economic outlook for the next five years is based on a national outlook assembled by Moody's Economy.com, a respected national economic forecasting firm. The August 2007 Moody's Economy.com national forecast scenario, which formed the national basis for the Vermont economic forecast update, expects the housing market- and high energy cost-induced slowdown in the U.S. economy to continue through much of calendar year 2008. The slowdown in housing and the growth restraining impacts of higher energy prices is expected to be off set by strong global economic growth in Asia and Europe, which will boost U.S. export growth. The top-line GDP growth rate numbers, after posting a 2.9% rate of inflation-adjusted growth in calendar 2006, is expected to slow to 2.0% for calendar 2007 and 2.3% for calendar 2008. For the 2009–11 timeframe, inflation-adjusted GDP growth is expected to average from a low of 2.8% (in calendar 2011) to a high of 3.2% (in calendar year 2009)—reflecting the longer term GDP growth implications of costlier and less readily available credit over the period.

The Moody's Economy.com national outlook for U.S. labor markets calls for only very restrained job growth over the 2007–11 forecast period. After posting a respectable 1.9% year-over-year job growth performance in calendar 2006, the year-over-year job growth rate is expected to decline to just 1.3% in calendar 2007 and 0.7% in calendar 2008. Over the calendar 2009 through calendar 2011 period, the U.S. payroll job growth rate is again expected to remain at or below 1.3% per year. As a result, the Moody's Economy.com national forecast expects that the national unemployment rate will move higher in calendar 2008, increasing from 4.6% in calendar 2007 to 4.9% in calendar 2008 and then easing back to a 4.7% annual average for calendar 2009. For calendar years 2010 through 2011, the unemployment rate is expected to be 4.6% for both years.

Regarding inflation, consumer prices, as measured by the Consumer Price Index, are expected to begin to moderate after posting a 6.0% high water mark during the second quarter of calendar year 2007, falling to under a 2.0% annual rate of change by the first half of calendar 2008. Consumer price increases are then expected to remain at roughly the 2.0% level throughout the rest of the calendar 2007 through calendar 2011 forecast period, aided by a leveling in global commodity prices including fossil fuels. The Moody's Economy.com forecast still includes a relatively modest outlook for global oil prices—the price of the benchmark West Texas Intermediate Crude Oil price per barrel is expected to decline from its lofty peaks during the second half of calendar 2007 to high $50s per barrel in calendar 2008 and remaining at an historically elevated level throughout the rest of the calendar 2007–11 forecast period.

Regarding interest rates, the Moody's Economy.com baseline forecast expects that monetary policy will continue to be supportive of preserving the current national economic expansion without promoting inflation. The mid-September cut in the Federal Funds rate was a significant change in policy emphasis by the Fed as it became clearer that the housing market recession and contraction of credit tied to subprime lending markets threatened the longevity of the current expansion. The Moody's Economy.com forecast expects one more easing move by the end of calendar 2007, which would move the Federal Funds rate to 4.5%, assuming no other action, and help off set the upcoming negative impacts on consumption from the still evolving housing market recession. Moody's Economy.com points out that at 4.5%, the Federal Funds rate would be "neutral," neither encouraging stronger economic growth nor leaning against inflationary pressures. Considering the lagged effects of monetary policy moves, the most important aspect of the Fed's easing move was to address worsening investor and business psychology. In the post-2007 time frame, the Moody's Economy.com scenario expects that there will be a bit of a "wait and see" approach with no real further easing and no significant tightening by the Fed in this interest rate cycle. The chief risk in monetary policy this Fall seems to be concern that the Fed may ease too far in an attempt to preserve the current national economic up-cycle to the detriment of longer term price stability. The fear is that building inflationary pressures may eventually encourage another round of tightening moves down the line that could be harmful to long-term investor confidence at time when U.S. financial markets are increasingly vulnerable to the goals and attitudes of global individual and institutional investors.

The key risks to the Moody's Economy.com five-year outlook are the still unfolding housing market recession, with its potential to spread beyond housing, and the now fragile condition of "recovering" financial markets in the aftermath of the collective realization of the extent of the subprime lending problem. Moody's Economy.com puts the probability of recession within the next six months in the U.S. economy at roughly one in three—down significantly from the over 40% reading in mid-September but up significantly from the roughly one in ten chance of recession during the Summer of calendar year 2006. Assuming the U.S. economy manages to avoid a full-fledged recession over the next two years as the housing market correction and sub-prime lending issue work their way out, it is likely that more expensive and harder to obtain credit will significantly reduce the economy's growth prospects over at least the near-term, if not over the entire 2007–11 forecast period.

The Vermont Economic Outlook: With the above national economic forecast and existing economic conditions in the State as background, the current outlook for the Vermont economy calls for the expected continuation of the State's current economic upturn. During the current decade, the State's economy has gone through two distinct periods. From 2000 through 2004, the State experienced a milder period of economic recession than the nation as a whole, followed by three years of strong output, job, and income growth as the State's economy generally outpaced its U.S. and New England regional counterparts. During that period, Vermont experienced relatively strong development and growth in its second home markets, and at the same time benefited from the general rising economic tide that accompanied the U.S. economic recovery. In 2005 and 2006 as housing market activity peaked, economic activity in Vermont experienced a deceleration. This deceleration has become more significant as the pace of second home activity declined around the State's resort areas. This slowdown in second home-building activity was compounded by a very poor 2006–07 Winter ski season, where persistently high gasoline prices and exceptionally poor winter weather combined to reduce skier visits to 3.8 million—the lowest level for skier visits in more than ten years.

Payroll job growth is expected to continue, but within a historically restrained annual rate of between 0.5% and 1.0% over the five-year forecast period. The effects of the housing market correction is clearly evident during 2007 and 2008, where payroll job growth are expected to be very restrained at 0.6% and 0.3% for calendar years 2007 and 2008, respectively. Job growth is expected to bounce back somewhat following the expected late 2008 or early 2009 low point for housing, although the 0.7% to 0.9% year-over-year over the calendar 2009 to calendar 2011 period is still well below the long-term trend annual growth rate for payroll employment. While the 0.6% annual rate of job growth for the five-year calendar 2006–11 time frame is double the 0.3% per year payroll job growth average during calendar years 2001–06, it is less than 1/3 of the 1.9% annual rate of payroll job growth experienced by the Vermont economy over the calendar year 1995–2001 time frame. Inflation-adjusted output growth is forecasted to follow a similar pattern over the course of the updated forecast, experiencing a negative year in calendar 2007 and a restrained 1.7% rate of growth in calendar 2008 due the effects of the State's housing market correction. Following calendar 2008, inflation-adjusted output growth is expected to average just under 3.5% from calendar 2009 though 2011. The five-year 2.3% average annual rate of output growth in the Vermont economy expected over the 2007–11 period corresponds to a level that is lower than the 3.0% housing-supported annual average rate of output growth experienced during the five-year calendar 2001–06 period. It represents an output growth rate that is half of the 4.6% rate of output growth experienced during the more heady calendar year 1995–2001 period.

On a sector-by-sector basis, the highest rates of job growth over the 2006–11 forecast period are expected in Leisure and Hospitality, Professional & Business Services and Education & Health Services, following a familiar pattern with the last several State forecasts. Manufacturing is expected to experience the most restrained job change performance at a 0.5% decline per year over the 2006–2011 forecast period. Although the State's forecast does not predict a positive job change in this job category, this performance would represent a significant improvement from the negative 4.5% annual job decline during the 2001–06 timeframe.

Over the five-year forecast period, nine of 12 of the State's major NAICS categories are expected to recover and add jobs, representing a significant improvement from the 2001–06 period where four of 12 major NAICS categories lost jobs. Seven of 12 NAICS super sectors are expected to have significantly more positive job adding performances over the next five years relative to the job addition record of the 2001–06 timeframe, with another two sectors matching the job gains of the 2001–06 time frame. Reflecting the housing market correction, this forecast update predicts that Construction will have a flat calendar year 2007 performance followed by a 3.7% year-over-year decline for calendar 2008. In the post-calendar 2008 timeframe, Construction is expected to recover somewhat, but the 1.5% to 2.5% annual rates of increase over that period are only about 60% of the calendar year 2001–06 annual average. In Government, sluggishness in the out-years of the forecast means that this sector overall is expected to lose jobs over the forecast period following average annual payroll job gains of 1.3% per year over the calendar 2001–06 time period and 2.0% per year over the calendar 1995–2001 time period. All of the State's major private sector NAICS categories, with the exception of Manufacturing, are expected to be in expansion mode by the end of the five-year forecast.

Although the State's relative economic performance is expected to be somewhat mixed over the calendar 2006 to 2011 period, the revised forecast includes the continuation of tight labor market conditions throughout the

State. The State's unemployment rate is expected to modestly during calendar 2007 and calendar 2008, peaking at 4.1% in late 2008 and early 2009. Following that peak, the State's unemployment rate is expected to decline by 0.4% to bottom at just over 3.7% in calendar 2011. That track, should this forecast be realized, would result in a Vermont unemployment rate that would be nearly 1.0% and nearly 0.75% below the U.S. and New England regional unemployment rates, respectively.

Economic Forecast – Summary Data

The following table sets forth comparative statistics and assumptions corresponding to the current short-term economic outlook for the Vermont and national economies. The U.S. data correspond to the assumed macroeconomic environment for the Vermont economy as provided by Moody's Economy.com for the upcoming five calendar year period as it was developed during the August 2007–October 2007 period. The Vermont statistics present the specific detail for the Vermont economic forecast that was developed over that same period and published in November of 2007. This forecast incorporates the estimated impacts of the housing market slow down and other macroeconomic variables.

Table 5

Calendar Year Forecast Comparison: United States, New England and Vermont

	Actual					Forecast				
	2002	2003	2004	2005	2006	2007[1]	2008	2009	2010	2011
Real Output (% Change)										
U.S. Gross Domestic Product	1.6	2.5	3.6	3.1	2.9	2.0	2.3	3.2	3.1	2.8
New England										
Gross Domestic Product	-0.3	1.9	3.9	1.5	2.6	0.7	2.1	3.0	2.7	2.5
Vermont Gross State Product	2.0	3.7	4.1	2.5	2.8	-0.3	1.7	3.5	3.6	3.2
Non-Farm Employment										
(% Change)										
U.S.	-1.1	-0.3	1.1	1.7	1.9	1.3	0.7	1.1	1.3	1.2
New England	-1.5	-1.1	0.4.	0.6	0.9	1.0	0.7	0.8	0.9	0.7
Vermont	-0.9	0.0	1.3	0.9	0.6	0.6	0.3	0.7	0.9	0.7
Personal Income										
(% Change) (Current Dollars)										
U.S.	1.8	3.2	6.2	5.9	6.6	6.2	4.6	4.8	4.9	4.8
New England	0.7	2.0	5.7	4.4	5.6	6.3	4.1	4.2	4.2	4.1
Vermont	1.7	3.7	4.3	4.3	4.7	5.5	4.3	4.2	4.2	4.2
Unemployment (%)										
U.S.	5.8	6.0	5.5	5.1	4.6	4.6	4.9	4.7	4.6	4.6
New England	4.8	5.4	4.9	4.7	4.6	4.6	4.8	4.5	4.4	4.4
Vermont	4.0	4.5	3.7	3.5	3.6	3.9	4.1	3.9	3.8	3.7

[1] Some 2006 variables are preliminary and subject to further revision, and 2007 values in this table reflect projected rates as of November 2007.
Sources: Moody's Economy.com (U.S.), New England Economic Partnership November 2006 Forecast (New England, Vermont).

Table 5 illustrates that the Vermont economy experienced a generally milder economic downturn over the 2002–03 period relative to both the nation and the New England region as a whole. The State's rate of job recovery and income growth performance in 2005 was slightly below the U.S. average but has been somewhat stronger than the rate of labor market recovery for the New England region as a whole. For calendar years 2007 and 2008, Vermont is expected to experience slightly lower rates of growth in output, jobs, and income as compared to the U.S. economy due in part to the housing market recession and its proportionately greater impact in Vermont due to second home development and somewhat greater negative impact that higher energy prices are expected to have on the State's economy. The State is expected to lag somewhat over the rest of calendar year 2007 and during calendar year 2008, regaining some of that lost output, job, and income growth momentum during calendar years 2009 through 2011.

Although the State's relative economic performance is expected to be mixed over the 2007 to 2011 period, the forecast expects that the State's unemployment rate will consistently be below both the U.S. and New England regional averages. This forecast is consistent with the favorable relative unemployment rate position the State has experienced for the last several years despite issues with the supply of labor that has recently constrained job growth across the State. The State's unemployment rate, consistent with the last five years, is expected to continue to track below both the U.S. average and the New England average over the 2007–11 period.

Regional Comparison

Data presented in Tables 6 through 8 include comparative labor market information for the State relative to the other New England states and the major metropolitan areas in the New England region. These data show that during the current economic cycle the Burlington metropolitan area continues to be a strong performing metropolitan area compared to the other 20 metropolitan areas in the New England region. The tables show that the State and its major metropolitan area have among the lowest unemployment rates, and among the best relative job recovery-growth performances, in the region during the current business cycle. This cycle includes the year with the most recent labor market peak and trough surrounding the early-2000s national economic recession and subsequent recovery-expansion in the New England region and the United States as a whole.

Table 6
Total Unemployment Rate Comparison of Vermont, Seven Northeastern States and the U.S.

	September 2007	August 2007	September 2006	Change From Last Year
Vermont	4.2%	4.2%	3.7%	0.5%
Connecticut	4.5	4.6	4.4	0.1
Maine	4.8	4.8	4.7	0.1
Massachusetts	4.4	4.5	5.1	-0.7
New Hampshire	3.5	3.6	3.4	0.1
New Jersey	4.3	4.3	4.6	-0.3
New York	4.6	4.9	4.3	0.3
Rhode Island	4.9	5.1	5.1	-0.2
United States	4.7	4.6	4.6	0.1

Notes: Data are seasonally adjusted and exclude the Armed Forces.

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 7
Comparison of Unemployment Rates in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Annual Average % 2000	Annual Average % 2001	Annual Average % 2002	Annual Average % 2003	Annual Average % 2004	Annual Average % 2005	Annual Average % 2006	Average % Jan. 2007 – Aug. 2007
Connecticut								
Bridgeport, Stamford, Norwalk	2.1	2.9	4.1	5.2	4.6	4.6	3.9	4.1
Danbury	1.7	2.4	3.3	4.2	3.9	3.8	3.3	3.5
Hartford-W. Hartford-E. Hartford	2.4	3.1	4.3	5.8	5.3	5.1	4.4	4.7
New Haven	2.4	3.0	4.1	5.4	5.0	5.0	4.5	4.8
Norwich-New London	2.4	2.8	3.8	4.8	4.6	4.5	4.2	4.2
Waterbury	2.9	4.1	5.8	7.2	6.4	6.3	5.5	5.8
Maine								
Bangor	3.4	3.6	4.1	4.6	4.8	4.7	4.5	4.8
Lewiston-Auburn	3.3	3.7	4.3	5.0	4.5	4.9	4.6	4.7
Portland, So. Portland, Biddeford	2.4	2.8	3.3	3.6	3.5	3.7	3.4	3.5
Massachusetts								
Barnstable Town	3.3	3.6	4.5	5.0	4.9	4.6	5.0	5.3
Boston, Cambridge, Quincy	2.6	3.4	5.2	5.7	5.1	4.6	4.6	4.6
Leominster, Fitchburg, Gardner	3.3	4.2	6.4	7.0	6.6	6.3	6.3	6.5
New Bedford	4.4	5.3	6.7	7.6	7.1	6.7	6.8	7.2
Pittsfield	3.0	3.5	4.5	5.1	4.7	4.4	4.5	4.9
Springfield	3.0	3.6	5.0	6.0	5.7	5.3	5.5	5.7
Worcester	2.7	3.5	5.3	6.0	5.4	5.0	5.2	5.4
New Hampshire								
Manchester	2.5	3.1	4.2	4.3	3.7	3.5	3.5	4.0
Portsmouth	2.5	3.1	4.1	4.2	3.6	3.5	3.2	3.3
Rochester-Dover	2.6	3.2	4.5	4.4	3.6	3.5	3.2	3.6
Rhode Island								
Providence, Fall River, Warwick	4.1	4.6	5.3	5.6	5.5	5.2	5.4	5.4
Vermont								
Burlington-South Burlington	2.2	2.7	3.6	4.1	3.3	3.2	3.3	3.3

Note: Data for Labor Market Areas are subject to sporadic revisions, depending on the state.
Furthermore, these areas are also subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: Federal Reserve Bank of Boston.

Table 8
Comparison of Nonfarm Payroll Job Growth in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Number of Nonfarm Jobs Calendar Year 2000 Annual Average	Number of Nonfarm Jobs Calendar Year 2006 Annual Average	Change in Number of Nonfarm Jobs Calendar Years 2000–2006	Percent Change in Nonfarm Jobs Calendar Years 2000–2006
	(000s)	(000s)	(000s)	
Connecticut				
Bridgeport, Stamford, Norwalk	425.8	416.4	-9.4	-2.3%
Danbury	70.0	69.3	-0.7	-1.0
Hartford-W. Hartford-E. Hartford	555.2	549.9	-5.3	-1.0
New Haven	274.5	276.3	1.8	0.7
Norwich-New London	128.1	135.7	7.6	5.6
Waterbury	71.4	68.6	-2.8	-4.1
Maine				
Bangor	62.0	65.4	3.4	5.2
Lewiston-Auburn	47.7	48.3	0.6	1.2
Portland, So. Portland, Biddeford	182.3	193.8	11.5	5.9
Massachusetts				
Barnstable Town	95.0	100.9	5.9	5.8
Boston, Cambridge, Quincy	2,530.3	2,446.2	-84.1	-3.4
Leominster, Fitchburg, Gardner	54.2	51.0	-3.2	-6.3
New Bedford	66.5	66.7	0.2	0.3
Pittsfield	36.6	37.0	0.4	1.1
Springfield	301.3	297.5	-3.8	-1.3
Worcester	244.2	247.0	2.8	1.1
New Hampshire				
Manchester	95.0	99.4	4.4	4.4
Portsmouth	49.9	55.9	6.0	10.7
Rochester-Dover	51.5	55.8	4.3	7.7
Rhode Island				
Providence, Fall River, Warwick	575.3	584.0	8.7	1.5
Vermont				
Burlington-South Burlington	112.7	113.3	0.6	0.5

Note: Labor Market Areas are subject to sporadic revisions depending on the state and also are subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: Federal Reserve Bank of Boston.

Composition of the Vermont Economy

Tables 9 and 10 include data that profile the earnings and employment levels by major industry for the State of Vermont under the North American Industry Classification System (NAICS). The earnings data cover the calendar year 2005–06 period (calendar year 2006 being the latest year where complete annual average data are available). Employment data by industry are provided for the 2004–06 calendar year period for Vermont and 2006 for the U.S. (2006 being the latest year where annual average data are available).

The full-time and part-time jobs data through calendar year 2006 show that manufacturing remains one of the State's most important sectors, representing an estimated 9.1% of total all non-farm employment in 2006 (versus 8.3% of employment for the U.S. in 2006) and an estimated 15.2 % of total earnings in 2006, down slightly from 15.5% of total earnings in Vermont during calendar year 2005. Other important parts of Vermont's economic base include: Health Care and Social Assistance at 12.2% of 2006 total employment, down slightly from 12.3% of total employment in 2005, and 15.4% of total earnings in 2006, Retail Trade at 11.8% of 2006 total employment, down slightly from 12.0% of total employment in 2004, Private educational services at 4.1% of total employment, nearly double the U.S. average of 2.1%, and Accommodations and Food Services at 7.4% of total employment versus 6.7% of employment for the U.S. as a whole. Relative to the U.S. economy, Vermont's economy relies somewhat more heavily on Construction, Manufacturing, Private Education Services, Health Care and Social Assistance, Retail Trade, Accommodations and Food Services, Arts, Entertainment, and Recreation, and the Farm sector. The State has a relatively high reliance on Retail Trade, Arts, Entertainment and Recreation, and Accommodations and Food Services, which reflects the importance of travel and tourism to the State's economy. At the same time, the State has a slightly lower reliance on sectors such as Professional and Technical Services, Financial Activities, Transportation, Warehousing and Utilities, Administrative and Waste Services, and the Wholesale Trade sector for its employment and earnings.

Table 9
Total Earnings By Industry
2005–2006
($Thousands)

	2005		2006	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$ 207,679	1.4%	$ 85,170	0.5%
Non-Farm Industry:				
Construction	1,158,988	7.6	1,192,234	7.6
Forestry, Fishing and Other Related Activities	66,982	0.4	72,328	0.5
Mining	44,168	0.3	50,444	0.3
Manufacturing	2,378,864	15.5	2,391,990	15.2
Wholesale Trade	609,539	4.0	634,530	4.0
Retail Trade	1,301,565	8.5	1,324,270	8.4
Information	335,490	2.2	325,005	2.1
Financial Activities	711,860	4.6	744,381	4.7
Real Estate and Rental and Leasing	247,281	1.6	213,559	1.4
Transportation, Warehousing and Utilities	563,225	1.4	604,664	0.5
Management of Companies and Enterprises	23,048	0.2	23,409	0.1
Professional and Technical Services	1,097,818	7.2	1,221,559	9.5
Education Services	445,999	2.9	463,332	2.9
Health Care and Social Assistance	1,874,381	12.2	1,980,457	15.4
Arts, Entertainment, and Recreation	127,442	0.8	136,816	0.9
Accommodations and Food Services	623,657	4.1	643,406	4.1
Administrative and Waste Services	331,132	2.2	341,050	2.7
Other Private Services-Providing	432,631	2.8	459,370	2.9
Total Private Non-Farm Industries	$12,374,070	80.7%	$12,822,804	81.3%
Government and Government Enterprises	$ 2,745,655	17.9%	$ 2,870,083	18.2%
Total Farm and Non-Farm Earnings	$15,327,404	100.0%	$15,778,057	100.0%

Notes: Total may not add due to rounding. Total Earnings is comprised of wages and salaries, other labor income and proprietor's income.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 10
Vermont Employment by Industry
2004–2006

	2004		2005		2006		U.S. 2006	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	8,913	2.1%	8,722	2.1%	8,601	2.0%	2,876,000	1.6%
Non-Farm Industry:								
Construction	31,271	7.5	32,351	7.6	35,830	8.3	11,580,000	6.5
Forestry, Fishing, and Other Related Activities	3,467	0.8	3,389	0.8	3,744	0.9	1,013,600	0.6
Mining	1,035	0.2	972	0.2	947	0.2	887,200	0.5
Manufacturing	40,107	9.6	40,151	9.5	39,392	9.1	14,766,400	8.3
Wholesale Trade	11,596	2.8	11,567	2.7	11,916	2.7	6,545,300	3.7
Retail Trade	49,946	12.0	50,563	11.9	51,245	11.8	19,199,400	10.8
Information	7,685	1.8	7,730	1.8	7,685	1.8	3,610,300	2.0
Financial Activities	13,201	3.2	13,100	3.1	13,418	3.1	8,467,300	4.7
Transportation, Warehousing & Utilities	10,940	2.6	11,202	2.6	11,367	2.6	6,339,700	3.6
Management of Companies and Enterprises	11,785	2.8	12,619	3.0	13,601	3.1	7,706,000	4.3
Real Estate and Rental and Leasing	495	0.1	495	0.1	501	0.1	1,890,700	1.1
Professional and Technical Services	24,733	5.9	25,615	6.0	26,086	6.0	11,701,000	6.6
Education Services	16,852	4.0	17,284	4.1	17,603	4.1	3,700,300	2.1
Health Care and Social Assistance	50,824	12.2	52,242	12.3	53,029	12.2	17,616,500	9.9
Arts, Entertainment, and Recreation	10,092	2.4	10,397	2.5	10,847	2.5	3,618,400	2.0
Accommodations and Food Services	32,036	7.7	31,956	7.5	32,270	7.4	11,960,200	6.7
Administrative and Waste Services	15,240	3.7	16,140	3.8	15,989	3.7	10,701,900	6.0
Other Services, except public administration	21,666	5.2	21,615	5.1	24,170	5.6	10,155,500	5.7
Total Private Sector Non-Farm	352,971	84.7%	359,388	84.8%	369,640	85.1%	151,459,700	84.9%
Government	55,055	13.2%	55,527	13.1%	55,902	12.9%	24,007,000	13.5%
Total Employment	416,939	100.0%	423,637	100.0%	434,143	100.0%	178,342,700	100.0%

Notes: Includes total jobs and proprietors. Totals may not add due to rounding.

SOURCE: U.S. Bureau of Economic Analysis, U.S. Department of Commerce.

Largest Private Employers

The Vermont economy reflects an increasingly diverse mix of manufacturing, tourist-based, education/higher education, professional services (including health care, business, and private sector higher education services), trade, and other employers. In 2007, the State's two largest private sector employers were IBM and Fletcher Allen Health Care. IBM is a global manufacturer of semiconductor and related devices with a total of roughly 5,700 jobs according to various published sources. The firm has generally been successful in securing major long-term supply contracts for both private sector and governmental (e.g. the U.S. Department of Defense) customers and through the development of new products. This has led to a stabilizing in their employment numbers over the last three years, with the addition of small numbers of workers from time to time and the periodic reduction of some others based on the firm's constantly evolving fabrication operations. Fletcher Allen Health Care is reported to have approximately 4,400 employees, and is now operating in significantly expanded and upgraded facilities. Other major private sector employers in the State include several companies reportedly with roughly 1,000 employees in the State. These employers reflect a mix of retail (Martin's Food Stores d.b.a. Hannaford's, Price Chopper Stores), financial institutions (Chittenden Trust Company), manufacturers (General Electric Company), health care including services providers (Central Vermont Medical Center, Inc., Rutland Hospital) and medical software providers (GE Health Care), higher education (Middlebury College), and the travel-tourism industry (Killington LTD and the Stratton Corporation). Ethan Allen, Inc., a manufacturer of quality furniture products and a provider of interior design services, also continues to have a major employment presence in the State, consolidating its domestic operations in Vermont. Other notable employers in the State include Central Vermont Public Service Company (the State's largest investor owned utility), Verizon New England, Inc. (which recently agreed to be acquired by Fairpoint Communications, Inc.), TD Banknorth NA, Simmonds Precision Products, Inc. of Vergennes, and several of the State's major resorts (Mt. Mansfield Company Inc. in Stowe, Smugglers Notch Management Company, LTD in Jeffersonville, and Mount Snow, LTD in West Dover). The University of Vermont and State Agricultural College also is a major employer in the State with a total of over 3,000 employees according to press reports. However, the University of Vermont is classified as a public sector employer and is not considered to be a part of the private sector employment mix of the State economy for any of the major employment surveys conducted by the Vermont Department of Labor.

Income Levels and Income Growth Performance

The following two tables include data relating to the trends in the rate of total personal income growth for Vermont, New England and the nation as a whole over the calendar year 1990-2006 period. On an average annual basis, total personal income in Vermont has increased by 4.9% per year from 1990 to 2006, as compared to the 4.8% average for the New England region and a 5.2% national average rate of growth for the same period. According to the U.S. Department of Commerce data presented in Table 12, Vermont's per capita personal income in calendar 1990 was $17,876 or 91.8% of the U.S. average of $19,477. By calendar 2006, Vermont's per capita personal income had risen to $34,623, or 94.5% of the U.S. average of $36,629. Vermont's growth rate in per capita personal income was 6.0% in calendar 2006, slightly more than the New England regional average (at 5.9% in calendar 2006), and the national average rate of per capita personal income growth rate (at 5.9% for calendar 2006). These same data show that Vermont's rate of per capita personal income growth in 2006 ranked 3rd highest among the six New England states.

Table 11
Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
Calendar Years 1990–2006
($ in millions)

	State of Vermont		New England		United States	
Calendar Year	Total Personal Income	Percent Growth	Total Personal Income	Percent Growth	Total Personal Income	Percent Growth
2006	$21,602	5.9%	$631,475	6.1%	$10,966,808	7.3%
2005	20,393	3.4	595,013	3.8	10,224,761	5.4
2004	19,721	5.8	573,379	6.2	9,702,525	6.0
2003	18,644	3.4	539,988	2.2	9,156,108	3.2
2002	18,030	1.6	528,170	0.7	8,872,521	1.8
2001	17,741	5.1	524,402	4.1	8,716,992	3.5
2000	16,883	7.9	503,961	9.9	8,422,074	8.0
1999	15,650	5.8	458,387	5.4	7,796,137	5.1
1998	14,787	7.6	435,052	7.4	7,415,709	7.4
1997	13,737	5.4	404,990	6.0	6,907,332	6.1
1996	13,039	5.4	382,164	5.7	6,512,485	6.0
1995	12,370	4.8	361,504	5.1	6,144,741	5.3
1994	11,809	4.9	344,112	4.3	5,833,906	5.2
1993	11,257	3.1	330,058	2.9	5,548,121	3.7
1992	10,919	6.8	320,794	5.4	5,349,384	6.3
1991	10,227	1.3	304,280	1.3	5,032,196	3.5
1990	10,096	4.2	300,474	3.2	4,861,936	6.4

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 12
Growth in Nominal Dollar Per Capita Personal Income for
Vermont, New England and the United States
Calendar Years 1990–2006

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth
2006	$34,623	6.0%	$44,252	5.9%	$36,629	5.9%
2005	32,654	2.6	41,797	4.6	34,586	4.6
2004	31,814	5.2	39,976	5.5	33,072	5.1
2003	30,247	3.3	37,894	1.5	31,466	2.2
2002	29,292	1.2	37,330	0.1	30,795	0.8
2001	28,948	4.6	37,308	3.3	30,562	2.4
2000	27,678	6.9	36,116	9.0	29,843	6.8
1999	25,881	5.1	33,126	4.6	27,939	3.9
1998	24,629	7.1	31,677	6.7	26,883	6.1
1997	23,002	4.7	29,687	5.3	25,334	4.8
1996	21,964	4.6	28,194	5.1	24,175	4.8
1995	21,002	3.8	26,832	4.5	23,076	4.1
1994	20,226	3.8	25,687	3.8	22,172	3.9
1993	19,485	2.2	24,752	2.4	21,346	2.4
1992	19,065	6.0	24,172	5.2	20,854	4.8
1991	17,985	0.6	22,969	1.1	19,892	2.1
1990	17,876	2.9	22,712	2.8	19,477	5.2

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment Statistics

Vermont had a labor force of 360,850 on an average annual basis in 2006, of whom 348,350 are estimated to be employed and 12,750 were unemployed. Vermont's 4.1% unemployment rate so far in 2007 compares favorably with the 4.7% unemployment rate for the nation overall and a 4.7% average unemployment rate for the New England region. The following table sets forth data regarding recent comparative trends in labor force, employment, and unemployment rates for Vermont, the New England region, and the U.S. economy as a whole from 1990 to 2006 and for calendar 2007 to-date through the month of August (August being that latest month where comparable published data are available).

Table 13
Average Annual Employment and Unemployment Rate

	State of Vermont			New England	United States
Year	Labor Force (in thousands)	Employment (in thousands)	Unemployment Rate (%)	Unemployment Rate (%)	Unemployment Rate (%)
2007[1]	361	346	4.1	4.7	4.7
2006	361	348	3.6	4.6	4.6
2005	356	344	3.5	4.7	5.1
2004	353	340	3.7	4.8	5.5
2003	352	336	4.5	5.4	6.0
2002	348	334	4.0	4.8	5.8
2001	341	330	3.3	3.7	4.8
2000	335	327	2.6	2.8	4.0
1999	335	326	2.9	3.3	4.2
1998	332	322	3.1	3.5	4.5
1997	329	316	4.0	4.4	4.9
1996	324	310	4.4	4.8	5.4
1995	319	305	4.3	5.4	5.6
1994	316	302	4.6	5.9	6.1
1993	315	298	5.3	6.8	6.9
1992	312	292	6.4	8.1	7.5
1991	309	288	6.6	8.0	6.9
1990	309	294	4.9	5.7	5.6

[1] Reflects the average for the January–August period of calendar year 2007.

Sources: Vermont Department of Employment and Training (Vermont); Federal Reserve Bank of Boston (New England and the United States).

Transportation

Highway. Vermont's highway system includes 320 miles of interstate routes, over 2,312 miles of toll-free State highways, and approximately 11,320 miles of supporting roads. The first completed section of the Bennington By-Pass was opened in October of 2004. The western segment of this important part of the State's highway infrastructure is the first of three segments to be completed. In its entirety, the project is expected to alleviate east-west traffic in the U.S. Route 9 to U.S. Route 7 corridor that currently passes through downtown Bennington. Construction of new sections of the Chittenden County Circumferential Highway was suspended on May 10, 2004 as a result of a U.S. District Court decision. That decision required the Vermont Agency of Transportation ("VTrans") to complete an updated environmental impact assessment that met the current requirements of the National Environmental Policy Act. This assessment is currently underway, has progressed to the point where the Federal Highway Administration and VTrans have issued a Draft Environmental Impact Stattement (DEIS). The comment period for the DEIS closed in early November. Based on comments and feedback on the DEIS, VTrans is expected to select a preferred alternative and make a final recommnedation, following an additional comment period regarding its preferred alternative, by mid-calendar year 2008.

Rail. The State owns 392 rail corridor miles out of a total of 747 rail corridor miles within the State. The State-owned rail miles are operated by Vermont Rail Systems, CSF Acquisition, Inc. and Northern Vermont Railroad (CDAC). At present, Vermont Railway, Green Mountain Railroad, Washington County Railroad and

Northern Vermont Railroad are servicing freight customers. Other private rail operators that provide freight service in Vermont are New England Central Railroad, St. Lawrence & Atlantic Railroad, and Guilford Rail Systems. State supported Amtrak service includes two passenger trains, the "Vermonter" which operates from Washington, DC to St. Albans, Vermont and the "Ethan Allen Express" with service from New York City to Rutland, Vermont.

Transit. Vermont Transit, a Greyhound subsidiary, operates bus routes in many of the major communities. There are 13 public transit providers, who provide an estimated 3.0 million passenger trips each year.

Air. There are 17 public use airports, including 10 State-owned airports and two that are municipally owned, including Burlington International Airport ("BIA"). During calendar year 2006, emplanements at BIA totaled 690,568. A $25.6 million facilities expansion plan was recently completed at the BIA. Facility upgrades included a significant addition to the airport's parking garage, the completion of a second skywalk between the parking garage and the terminal, additional gates, and expanded baggage handling and terminal-waiting facilities.

In calendar year 2007, the list of commerical air carriers serving the airport includes a total of six national and regional carriers serving Boston, New York (John F. Kennedy Airport), Newark, Philadelphia and Washington, DC (including service to both Ronald Reagan Washington National and Washington Dulles airports). In addition, carriers also serve Chicago, Cincinnati, Detroit and Minneapolis. Jet Blue Airlines' role at the BIA grew to become the most significant carrier, with 136,434 emplanements or 19.8% of the total during calendar 2006. Other major carriers currently at the BIA include United Airlines, Northwest Airlines, Continental Airlines, Delta Airlines and U.S. Air. In calendar 2006, the number of passengers that boarded aircraft at the BIA declined slightly from 691,585 in calendar 2005 to 690,568. The number of passengers that boarded aircraft between the months of January to September of 2007 exceeded the number that boarded aircraft for a comparable nine-month period for both calendar 2006 (at 17,200 passengers or 3.3% higher) and calendar 2005 (at 13,481 passengers or 2.6% higher).

Utilities

In recent years, there have been a number of positive developments that have contributed to the stability of the electric utility industry in Vermont. In the interest of maintaining stability, Vermont has suspended movement toward retail choice. Retail customers continue to receive service from vertically integrated electric utilities. The State currently allows for "economic development" rates for portions of the power used by businesses in Vermont subject to the approval of the Vermont Public Service Board. Many businesses have filed for and received approval for such rates in conjunction with their service provider over the past several years large manufacturers and ski resorts.

In terms of supply and looking ahead over the next 10 years, there are a number of challenges facing the State as its current energy supply contracts begin to expire. First, Entergy Nuclear of Mississippi (Entergy) is seeking an extension of its license at the Vermont Yankee nuclear facility. Although it is unclear whether or when a license extension will be approved, it should be noted that the company did move forward and received regulatory approval for additional on-site fuel storage and to increase energy output at the facility (see below). Outside of the Vermont Yankee power plant, it should also be noted that committed supply from the State utilities' current energy supply contracts with Hydro Quebec will decline significantly during the 2012 to 2016 period and beyond. This situation affords Vermont's utilities the opportunity to negotiate new power supply agreements with its current and potential new suppliers.

Regarding the transmission-reliability issue, the Vermont Electric Power Company (VELCO) continues its multi-faceted initiative to substantially upgrade the State's transmission system as part of a larger effort to improve the capacity and reliability of the electric transmission system of the New England region. VELCO has recently completed a substantial project in the far northern part of the State and has a major project underway in Chittenden County called the Northwest Reliability Project (NRP) as well as a project to strengthen transmission in the Route 100 corridor north of Waterbury. The NRP received a Certificate of Public Good under Act 248 on January 25, 2005. The project continues to move forward. A joint utility filing proposing an upgrade of the 345 kV transmission line between the Vermont Yankee plant and the Coolidge substation in Cavendish, Vermont is expected shortly.

On July 31, 2002, a consortium of New England utilities—including Green Mountain Power and Central Vermont Public Service Corporation—sold the Vermont Yankee Nuclear Power Plant to Entergy for $180 million. The plant serves an estimated 320,000 Vermont electric customers and the Public Service Board found that the sale constitutes a net present value benefit to Vermonters of $263 million to $383 million. In 2003, Entergy filed a request with the Vermont Public Service Board to substantially increase its energy output at the facility. This additional energy would be sold into the New England market. Final Public Service Board approval of this request was granted on April 26, 2006.

On June 22, 2006, it was announced that Northern New England Energy Corporation had entered into an agreement to acquire Green Mountain Power Corporation. Green Mountain Power is the State's second largest investor-owned utility serving 90,000 Vermont customers with operating revenues of $240.5 million in calendar year 2006. The Vermont Public Service Board approved the transaction on March 27, 2007.

Natural gas is an important source of energy in northwestern sections of Vermont that receive natural gas service through Vermont's connection to the Trans Canada Pipeline system. Expansion of gas distribution systems in Chittenden County continues with additional transmission pipeline loops currently being constructed. Large LPG rail depots are in place, and have increased the quantity of LPG stored locally.

Vermont currently has an extensive telecommunications network. Verizon offers local telephone service to approximately 85% of Vermont consumers while nine other incumbent local exchange companies serve the areas of the State not served by Verizon. Over one hundred telephone companies are authorized to provide service in competition with Verizon, and an extensive fiber optic network reaches all regions of the State. On January 16, 2007, Verizon announced that it had agreed to sell its land-line business in Maine, New Hampshire and Vermont to FairPoint Communications, Inc. of Charlotte, North Carolina. Under the proposed sale, FairPoint would acquire 1.5 million access lines, 180,000 DSL lines, and 600,000 long-distance customers as of September 30, 2006 in the three northern New England states. The proposed transaction in Vermont must receive approval from the Vermont Public Service Board.

Access to broadband services now covers nearly 87 percent of the State and is increasingly available in both urban and rural markets either from incumbent and competitive telephone companies, or from cable companies. Vermont has had a number of years of robust long-distance competition. Cellular telephone service comes from Rural Cellular, Verizon Mobile and U.S. Cellular, while Nextel and Sprint PCS are currently building personal wireless service networks. Vermont has pioneered the use of a State telephone Universal Service Fund to promote key social objectives while supporting competition. A statewide enhanced "9-1-1" emergency telephone system is now in place throughout Vermont. The Governor recently proposed and the Legislature created a telecommunications authority in connection with a major initiative that will include both private and public funding. See "STATE INDEBTEDNESS – Reserve Fund Commitments – Vermont Telecom Authority."

STATE FUNDS AND REVENUES

Budget Process

The Governor submits to the General Assembly, not later than the third Tuesday of every regular and adjourned session, a recommended budget for appropriations or other authorizations for State expenditures for the next succeeding fiscal year. The General Assembly then enacts into law an appropriation act, which must be approved by the Governor before expenditures may be made.

The budget process commences in July of each year when the Emergency Board determines estimates of available revenues based on a forecast for the next fiscal year. The Department of Finance and Management makes provisional allocations to the various budgetary entities ("Departments"), and an assessment of funding required to continue operations at the prior year's levels. Negotiation of revised or incremental funding levels, reflecting Departments' initiatives and priorities and directives from the Governor, while remaining within the projected revenue parameters, takes place through meetings between Departments and the Agency of Administration. Budget documents are submitted electronically, presenting appropriations and expenditures for the current and immediately prior fiscal years and the budget request for the subsequent fiscal year. The Emergency Board issues an updated revenue forecast in January of each year, which may result in revised funding and programmatic recommendations, which are then presented by the Governor to the Legislature no later than the third Tuesday of every annual legislative session, as required by law. After extensive testimony, the Legislature passes an appropriations act, which must be approved by the Governor before spending controls ("appropriations") are set up in the VISION financial management system and expenditures can be made. In practice, annual budgets have been recommended by the Governor and annual appropriations have been approved by the Legislature and signed into law.

Budgets are prepared and appropriated on a cash basis, usually at the program level. The Governor may amend appropriations within certain statutory limits. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation, unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

Internal Control System

Managers across state government are responsible for seeking opportunities to improve their business processes and program results. The State of Vermont recognizes that appropriate internal controls must be in place to achieve these outcomes and minimize operational risks. In fiscal year 2005, the Department of Finance and Management began an initiative to assess and strengthen internal controls throughout State government. An internal control system is designed to provide reasonable assurance regarding the achievement of objectives for effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. This initiative resulted in the creation of a designated internal controls unit within the Department of Finance and Management. Efforts to date include issuance of additional fiscal policies and procedures, an internal controls standards guide and associated best business practices, quarterly newsletters, and performance of operational reviews in agencies and departments.

The State of Vermont manages statewide accounting operations centrally through an Oracle-based enterprise-wide financial management system (VISION). Enterprise software improves the State's business processes by providing expanded functionality and by incorporating "best practices" and standardized procedures.

Comprehensive Annual Financial Report

The audit of the State's fiscal year 2007 Comprehensive Annual Financial Report (CAFR) is expected to be completed by December 31, 2007. When the audit opinion is issued by the State Auditor, the CAFR will be published on Finance & Management's website at http://finance.state.vt.us/Publications.htm.

The audited basic financial statements of the State for fiscal year 2006, together with the State Auditor of Accounts' unqualified opinion on these statements, are included as Appendix A to this Official Statement and as part of the State's fiscal year 2006 CAFR (pages 12 through 116) at Finance & Management's website at http://finance.state.vt.us/Fin%20Publications/2006_cafr.pdf.

All fiscal year 2007 information set forth in this Official Statement is preliminary and unaudited.

Fund Structure

The State's financial statements are structured into three fund types: governmental, proprietary and fiduciary. The funds in the governmental and proprietary fund types are further classified as "major" or "non-major" depending upon their size in relation to the other funds and importance to the financial statement users, as required by Governmental Accounting Standards Board Statement No 34. (See Note 1C in the State's fiscal year 2006 audited financial statements attached hereto as Appendix A for further explanation of these criteria.) The general characteristics of the fund types are as follows.

Governmental Fund Types

General Fund (Major Fund): By act of the General Assembly, the General Fund is established as the basic operating fund of the State. The General Fund is required to be used to finance all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any other designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves." Debt service requirements on General Fund bonds and notes are paid from the General Fund.

Special Revenue Funds: These funds are used to account for revenues specifically earmarked to finance only particular or restricted programs and activities and include the following:

Transportation Fund (Major Fund): Revenues of this fund are used for expenditures associated with overall construction and maintenance of the State's transportation system, state police, debt service requirements on Transportation Fund bonds and notes (which include the State Transportation and Highway bonds and notes) and certain other functions of government. The principal sources of revenue in this fund are motor fuel taxes, purchase and use taxes, license and permit fees for motor vehicles, and reimbursements from the federal government for highway programs. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves."

Education Fund (Major Fund): Established by the Equal Educational Opportunity Act of 1997 and effective July 1, 1998, the revenues of this fund finance the State's support of K-12 public education, as well as property tax reform. Through fiscal year 2004, the sources of revenue in this fund (16 V.S.A. 4025(a)) were the education property tax, the local share property tax, revenues from the State lotteries, the tax on telecommunications services, revenues from brokerage fees, 20 percent of the meals and rooms and alcoholic beverages tax, 16 percent of the gasoline tax, one-sixth of the motor vehicles purchase and use tax revenue, 19 percent of the tax on corporations including Subchapter S corporations, partnerships and limited liability companies, 58.3 percent of bank franchise tax revenue, and funds appropriated or transferred by the General Assembly. Beginning in fiscal year 2005, in accordance with 16 V.S.A. 4025(a) as amended, the sources of funding are as follows: statewide education property tax; revenues from the State lotteries; revenue from the electric generating plant education property tax; one-third of the motor vehicle purchase and use tax; one-third of the sales and use tax; Medicaid reimbursements pursuant to 16 V.S.A. 2959a(f) and funds appropriated or transferred by the General Assembly. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

Federal Revenue Fund (Major Fund): All federal grant receipts are recorded in this fund, except for those federal funds specifically earmarked for transportation or fish and wildlife purposes. Grants of these types are recorded in the State's Transportation Fund and Fish and Wildlife Fund, respectively. Major categories of expenditure within this fund are from federal reimbursement for various health, education and welfare programs, the State counterpart of which is reflected in the General Fund.

Special Fund (Major Fund): These funds account for proceeds of specific revenues not otherwise categorized that are legally restricted to expenditures for specific purposes. These purposes cover the entire spectrum of State government.

Global Commitment (to health) Fund (Major Fund): This is a major special revenue fund created in accordance with Section 16c of 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal government. This agreement caps Federal expenditures for Medicaid services for five years but gives Vermont great latitude in promoting universal access to health care, cost containment and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies.

Fish and Wildlife Fund (Non-major Fund): Receipts are restricted by statute and can only be used for fish and wildlife purposes. The principal sources of revenue are license fees and Federal grants.

Capital Project Funds (Non-major Funds): These funds account for capital improvement appropriations that are or will be primarily funded by the issue of State bonds. Separate bond funds are maintained as corollaries to both the General Fund and Transportation Fund.

Permanent Funds (Non-major Funds): These nine funds report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or its citizenry, such as higher education, cemetery care and monument preservation.

Proprietary Fund Types

Enterprise Funds: These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the State's intent is that the costs of providing goods or services to the public be financed or recovered primarily through user charges, or (b) where the State has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These types of funds are reported in both major (3 funds) and non-major (5 funds) categories as described above.

Internal Service Funds: There are 22 funds of this non-major type reported by the State. These funds are used to account for the financing of goods and services provided by one State department or agency to other State departments, agencies, or other governmental units on a cost-reimbursement basis. These funds are consolidated into one column and are reported in the Proprietary Funds' financial statements.

Fiduciary Fund Types

These funds account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. These funds include the following:

Pension and Other Employee Benefit Trust Funds: These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement System of Vermont, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, the State's Single Deposit Investment Account and the State's Other Post-Employment Benefits Trust Fund. See "PENSION PLANS."

Private Purpose Trust Funds: The State's only fund in this category is the *Unclaimed Property Fund*, which accounts for all abandoned property that is required to be remitted to the State. The State Treasurer administers procedures for returning this property to its rightful owner if he/she can be located. In addition to monetary assets, from time to time the State Treasurer may have custody of tangible property that has not been valued and therefore is not reported in the financial statements. Each year, the fund retains the greater of $100,000 or 50 percent of the amount received during the previous year, and the balance is transferred to the General Fund. Amounts for which the eligibility period for being claimed has expired are transferred to the Higher Education Endowment Fund (a permanent fund).

Agency Funds: These funds report assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding and State income tax withholding.

GAAP-Based Fund Results

The following is selective comparable financial information based on audited financial data for specific governmental funds for fiscal years ending June 30, 2006 and 2005 as contained in each fiscal year's CAFR. Fiscal year ending June 30, 2007 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.

For fiscal year 2006, the General Fund had a $161.5 million total fund balance as compared to a $163.7 million total fund balance in fiscal year 2005, a decrease of $2.2 million. The unreserved undesignated portion of this fund balance decreased from $68.6 million in 2005 to $68.3 million in 2006. This decrease occurred after the General Fund Budget Stabilization Reserve balance was increased from $45.8 million in 2005 to $51.8 million in 2006, the General Assembly's designated "Reservation for General Fund Surplus" was increased from $19.6 million in 2005 to $21.1 million in 2006, and the Agency of Human Services' "Reservation for Human Services Caseload Management" decreased from $18.5 million in 2005 to $8.5 million in 2006. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance increased from $114.4 million at the end of fiscal year 2005 to $120.1 million at the end of fiscal year 2006 for a total increase of $5.7 million.

For fiscal year 2006, the Transportation Fund had a total fund balance of $20.8 million, a decrease of $1.4 million compared to the fiscal year 2005 balance. The unreserved undesignated portion of the 2006 total fund balance was $9.8 million, which represents a decrease of $1.4 million compared to fiscal year 2005. The Budget Stabilization Reserve in the Transportation Fund decreased slightly ($54,000) from 2005 to 2006. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance decreased from $22.2 million at the end of fiscal year 2005 to $20.8 million at the end of fiscal year 2006 or a total decrease of $1.4 million.

For fiscal year 2006, the Education Fund had a total fund balance of $27.1 million, an increase of $1.1 million compared to the fiscal year 2005 balance. The unreserved undesignated portion of the 2006 total fund balance was $2.8 million, which represents a decrease of $319,000 compared to fiscal year 2005. However, the Budget Stabilization Reserve in the Education Fund increased from $22.9 million in fiscal year 2005 to $24.3 million in fiscal year 2006. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance increased from $26 million at the end of fiscal year 2005 to $27.1 million at the end of fiscal year 2006 or a total increase of $1.1 million.

In summary, as of June 30, 2006, the status of the budget stabilization reserves for the governmental funds that have them was as follows: both the General Fund's and Transportation Fund's Budget Stabilization Reserves were fully funded whereas the Education Fund's Budget Stabilization Reserve was funded at 90.8% of the maximum funding allowed by statute.

For fiscal year 2006, the first year of its existence, the Global Commitment Fund ended the year with a $19.9 million fund balance, virtually all of it unreserved—designated for specific purposes. This was the result of total expenditures of $591.2 million funded by net transfers in of $611.1 million. The Global Commitment Fund has no legislatively mandated budget stabilization reserve.

For fiscal year 2006, the Federal Revenue Fund reported a total fund balance of $53 million, which was a decrease of $207,000 over fiscal year 2005. The unreserved undesignated portion of this total fund balance increased from $40.5 million in 2005 to $41.6 million in 2006, an increase of $1.1 million. There is no budget stabilization reserve in the Federal Revenue Fund.

State General Fund Revenues

The principal sources of State General Fund revenues are personal and corporate income taxes, a general State sales tax, and a meals and rooms tax. These four tax sources accounted for 86.1% of the General Fund revenue in fiscal year 2007.

The following is a brief discussion of the principal General Fund revenue sources.

Personal Income Tax: From January 1, 1994 through December 31, 1999, Vermont personal income tax was calculated as 25% of a taxpayer's federal income tax liability. On January 1, 2000, the Vermont personal income tax rate was reduced to 24% of the taxpayer's federal income tax liability. For tax years 2001 and 2002, Vermont personal income tax liability was redesigned to substantially maintain the State's revenue base prior to the passage of the federal tax cut effective in 2001 and in 2003. During the 2002 meeting of the Vermont General Assembly, the temporary measure of calculating Vermont income tax based on federal taxable income for tax years 2001 and 2002 was made permanent utilizing the same revenue base maintenance approach devised under the 2001 to 2002 temporary change. The personal income tax accounted for $581.2 million or 50.5% of net General Fund revenues in fiscal year 2007.

Sales and Use Tax: The 2003 Vermont General Assembly increased the general Vermont sales and use tax rate from 5% to 6% effective October 1, 2003. Major exemptions to the State's general sales and use tax include sales of food, medicine, clothing, manufacturing and agricultural supplies and equipment, and fuel and electricity for domestic, manufacturing or agricultural use. Effective September 1, 1997, a telecommunications sales tax of 4.36% was implemented to, in part, fund Act 60 (the State's education finance reform legislation). The telecommunications sales tax rate was increased to the general sales tax rate of 6% effective October 1, 2003. Effective July 1, 2004, the statutory structure of these taxes changed from: (1) 100% of the annual receipts of the general sales and use tax to the General Fund, and (2) 100% of the gross receipts of the telecommunications tax to the Education Fund, to a statutory transfer of one-third of total gross sales and use tax receipts (inclusive of the telecommunications tax) from the General Fund to the Education Fund. Effective January 1, 2007, the State also became a participant in the multi-state Streamlined Sales Tax Agreement (SSTA). The SSTA is a multi-state effort to simplify and streamline state sales and use taxes in order to facilitate the collection of such taxes from out-of-state vendors such as mail order and internet retailers. The Douglas Administration and Legislative Joint Fiscal Office have completed a second round of consensus revenue estimates for this initiative based on the first six months of actual experience. Based on the conforming changes to the State's sales and use tax statute that were necessary to become a participant in this initiative, it is expected that the SSTA will result in additional sales and use tax revenue of $9.4 million and $9.6 million for fiscal years 2008 and 2009, respectively. In fiscal year 2007, the sales and use tax totaled $222.5 million or 19.3% of net General Fund receipts.

Meals and Rooms Tax: A 9% tax is imposed on taxable meals and the rent of each occupancy. The meals and rooms tax imposed on liquor consumed on the premises is 10%. Through June 30, 2004, the law required a statutory transfer of 20% of gross receipts less the sum of $1.56 million from the General Fund to the Education Fund. Since July 1, 2004, 100% of the gross receipts from this tax will remain in the State's General Fund. In fiscal year 2007, meals and rooms tax revenues amounted to $114.9 million or 10.0% of revenues available to the General Fund.

Corporate Income Tax: From January 1, 1997 until January 1, 2006, the net income of corporations is taxed at the greater of $250 or the following rates: first $10,000 – 7.0%; next $15,000 – 8.1%; next $225,000 – 9.2%; excess over $250,000 – 9.75%. For tax year 2006 the tax is the greater of $250 or: first $10,000 – 6%; the next $15,000 – 7%; next $225,000 – 8.75%; excess over $250,000 – 8.9%. Beginning in 2007, the rates are unchanged through $25,000 and the rate on the excess over $25,000 will be 8.5%. For the tax years beginning in 2002, Vermont made adjustments to its corporate income tax designed to substantially maintain the State's tax base that was in effect prior to the changes in depreciation expenses included in the federal stimulus legislation effective in 2001. Subsequent federal bonus depreciation legislation has not reduced the State's base because of these adjustments. Beginning with tax year 2006 the income of affiliated corporations operating a unitary business will be computed using the combined reporting methodology. Also beginning with tax year 2006, the three-factor formula for apportioning income earned from a multi-state business was modified to weight the percentage of sales in the State at 50%, the percentage of property and payroll at 25% each (prior law weighted each factor as one-third). Beginning on July 1, 1998, 19% of the gross tax collected on corporate income (including S corporations, partnerships, and limited liability companies) was allocated from the General Fund to the Education Fund. Effective July 1, 2004, 100% of the gross receipts from this tax remains in the General Fund. In fiscal year 2007, receipts from the corporate income tax were $72.8 million or 6.3% of the revenues available to the General Fund.

Insurance Tax: Insurance companies are taxed at a rate of 2.0% per annum on the gross amount of premiums and assessments written in the State, exclusive of premiums for reinsurance. Additionally, captive insurance companies are taxed based on the volume of premiums written. The rate schedule for captive insurance rate was reduced in 2003 to a range from .0038 to .00072 (from previous rates of .004 to .00075) in order to reinforce the State as a preferred domicile for captive insurers in an increasingly competitive industry climate. In fiscal year 2007, insurance taxes accounted for $52.9 million or 4.6% of net General Fund revenues.

Telephone Receipts and Property Tax: In addition to the general corporate income tax, a tax of 2.37% is levied on net book value of personal property in the State of persons or corporations owning or operating a telephone line or business within the State. For businesses with less than $50,000,000 in annual gross operating receipts in the State in the preceding taxable year, taxpayers may elect to pay the gross receipts tax of 5.25% in lieu of the income and property tax. Effective June 7, 2004, no new elections to pay the gross receipts tax may be made. In fiscal year 2007, telephone receipts and property taxes generated $10.0 million or 0.9% of net General Fund revenues.

Real Property Transfer Tax: A tax is imposed upon the transfer by deed of title to property located within the State. The rate is 0.5% on the first $100,000 of a purchaser's principal residence and 1.25% on the amount over $100,000. For a non-principal residence, the rate on the entire amount is 1.25%. Beginning in fiscal year 2000, 33% of the receipts from the property transfer tax are retained by the General Fund, and the remainder deposited directly into the Housing and Conservation Trust Fund and the Municipal and Regional Planning Fund. In recent years, the General Assembly has often modified this formula to the benefit of the General Fund. In fiscal year 2007, receipts from the transfer tax totaled $39.3 million. After statutory transfers, net receipts totaling $12.8 million or 1.1% of revenues available were retained by the General Fund.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2007, liquor taxes generated $13.7 million or 1.2% of net General Fund revenues.

Beverage Tax: Beverage taxes are levied on bottlers and wholesalers of malt and vinous beverages at the rates of $0.265 and $0.55 per gallon, respectively. Vinous beverages are also subject to the general State sales tax. Beverage taxes accounted for $5.5 million or 0.5% of net General Fund revenues in fiscal year 2007.

Estate Tax: Transfers of estates are taxed in an amount equal to the federal credit for State death taxes as computed from the Internal Revenue Code in effect on January 1, 2001. The estate tax accounted for $17.8 million or 1.6% of net General Fund revenues in fiscal year 2007.

Electric Energy Tax: The tax on electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 was restructured for periods beginning in 2004. Until January 1, 2004 plants were assessed a tax of 3.5% of the value thereof less an adjustment for local taxes as appraised by the Commissioner of Taxes. Effective January 1, 2004 the tax is assessed on generation according to a rate schedule ranging from a $2.0 million minimum to $2.6 million plus $.40 per megawatt hour in excess of 4,200,000. The tax raised $2.6 million or 0.2% of net General Fund revenues in fiscal year 2007.

Bank Franchise Tax: The State levies a bank franchise tax based on average monthly deposits. The tax rate on such deposits was increased from .004% to .0096% pursuant to Act 60 Property Tax Reform legislation. Beginning on July 1, 1998 and through June 30, 2004, 58.3% of total collections in this tax source are allocated to the Education Fund. As of July 1, 2004, 100% of gross receipts from this tax has been dedicated to the General Fund. The bank franchise tax revenues were $10.5 million, which represented 0.5% of revenues available to the General Fund in fiscal year 2007.

Other Taxes-Fees: In addition to the taxes discussed above, the State levies taxes and other minor fees that are credited to the General Fund. Current law includes the dedication of 100% of the revenues raised from increased brokerage fees as passed under Act 60 to the Education Fund through June 30, 2004. Effective July 1, 2004, 100% of the revenues raised by those increased brokerage fees has been dedicated to the General Fund. Net revenues in this category were $34.3 million or 3.0% of revenues available to the General Fund in fiscal year 2007.

State Transportation Fund Revenues

The following is a brief discussion of the major sources of Transportation Fund revenues and the amount derived from each source in fiscal year 2007.

Purchase and Use Tax: A purchase and use tax that is equivalent to the sales tax rate is assessed on the “taxable cost” (purchase price or value, less allowance for resale value of buyer’s used vehicle) upon first registration of the motor vehicle. Effective August 1, 1997, the purchase and use tax was increased from 5% to 6% pursuant to Act 60 property tax reform legislation. Beginning on July 1, 1998, 16.7% of total collections in this tax source began to be deposited directly into the Education Fund. Effective July 1, 2000, the $750 ceiling on trucks over 6,100 lbs., agricultural vehicles, school buses, trailers, and motorcycles was increased to $1,100. As of July 1, 2004, one-third of gross receipts collected under this tax is deposited directly into the Education Fund pursuant to Act 68 of the Acts of 2003. During the 2006 session, the Vermont General Assembly changed the statutory cap on taxes paid to $1,680 effective July 1, 2007. After the statutory transfer of receipts to the Education Fund, revenues totaling $53.7 million representing 24.4% of net revenues available to the Transportation Fund were received in fiscal year 2007.

Motor Vehicle Fees: A registration fee is collected on all motor vehicles and trailers with the amount determined by the type, size, weight, and function of the vehicle. Driver’s license fees are also included in this category as well as miscellaneous registration and license fees. During the 2006 session, the Vermont General Assembly passed legislation that generally increased all motor vehicle fees effective July 1, 2007. In fiscal year 2007, motor vehicle fees accounted for $65.4 million, representing 24.4% of net revenues and fees available to the Transportation Fund.

Motor and Diesel Fuel Taxes: Effective August 1, 1997, pursuant to Act 60 property tax reform legislation, gasoline distributors are taxed at a rate of 19 cents (plus one cent per gallon petroleum licensing fee) per gallon sold, a 4 cent per gallon increase above the previous rate. Beginning on July 1, 1999 and through June 30, 2004, 16.0%

of total gasoline tax collections were allocated to the Education Fund. Effective July 1, 2004, 100% of the tax collected from gasoline distributors is dedicated to the Transportation Fund pursuant to Act 68 of the Acts of 2003. In fiscal year 2007, the motor fuel tax accounted for $63.6 million or 28.9% of net revenues available to the Transportation Fund.

Since 2000, diesel tax has been imposed at the distributor level at 25 cents per gallon. Diesel fuel is also subject to the one-cent petroleum-licensing fee. In fiscal year 2007, the diesel fuel tax accounted for $18.0 million or 8.2% of net revenues available to the Transportation Fund.

Other Taxes-Fees: These categories include all remaining sources of revenue for the Transportation Fund except Federal receipts. Some of the items are registration fees on off-road vehicles, a tax on aviation fuel, title fees, overweight permit fees, air and rail revenue and revenue from fines and penalties. During the 2006 session, the Vermont General Assembly passed legislation that changed the level of several fees in this category effective July 1, 2007. In fiscal year 2007, these other sources of revenues accounted for $19.2 million or 8.7% of net revenues available to the Transportation Fund.

Education Fund; Act 60 and Act 68 – Property Tax Reform

In 1997 Vermont passed comprehensive legislation aimed at responding to a Vermont Supreme Court decision holding its system of funding education unconstitutional. The resulting law, known as Act 60, mandated substantial change to both the focus and funding of K-12 education. The focus of the system is on academic outcomes for children incorporating standards based on performance and assessment. The State has made several major changes to its funding model for primary and secondary public education over the past six years.

Prior to Act 60, each school district funded educational expenditures within that district and set tax rates and collected school taxes from the population of the district. School tax rates were determined by each school district and ranged from as little as $.125 per $100 of listed property value in one school district to over $3.00 per $100 in another, adjusted for inequities in town grand lists of property values. The State gave aid through a foundation formula to help those towns that could not raise sufficient revenues. Act 60 provided for a block grant from the State to each school district on a per student basis commencing in fiscal year 1999. The law provided for the amount of the grant to grow based on the inflation index each year. The block grant was funded through a uniform statewide property tax (described below) as well as with significant State appropriations. Act 60 created a statewide school tax at a uniform rate of $1.10 per $100 that was implemented over a three-year transitional period that began in fiscal year 1999. In addition to creating the statewide tax rate to specifically support education, Act 60 increased several broad based taxes and committed the increases to the Education Fund. In addition, all lottery receipts were dedicated to the Education Fund.

In addition to the business property tax relief provided to industrial and commercial owners, Act 60 provided that any household with income of less than $75,000 does not pay more than 2% of that income for the statewide school taxes. The household income amount was raised to $85,000 for fiscal year 2007 and to $90,000 for fiscal year 2008. If a household's income is over the amount allowed for calculation of adjustment by the household income percentage, the taxes on the first $200,000 of Homestead value are used in the calculation. Taxpayers may be eligible for additional benefits if their income is under $47,000 and the total applicable tax (municipal and school) exceeds between 3.5% and 5.0% of their income based on a sliding scale. The applicable percentage for the lowest income category was reduced to 2.0% beginning in fiscal year 2007. Until fiscal year 2007, the property tax adjustments were paid to the individual qualifying taxpayers.

The Statewide property tax is billed and collected at the local level. A netting process is followed, with the State paying any net amounts due the districts in three payments while the towns pay net amounts due the State in two equal payments. Municipalities currently retain 0.125% of the total education tax collected upon timely remittance of net payments. In fiscal year 2009, the percentage will increase to 0.225%.

In 2003, the Legislature passed Act 68, which modified the statewide property tax system by classifying property as either homestead or nonresidential and taxing those classes differently. Homestead property was assessed at the rate of $1.10 per $100 of assessed value multiplied by the district spending adjustment while all other property was assessed at $1.59 per $100 and is not subject to the district spending adjustment. These rates have been adjusted annually based upon the Education Fund balance. For fiscal year 2008, the homestead and non-residential rates were reduced to $0.87 and $1.36, respectively.

In 2006, the Legislature passed Act 185, which significantly alters the way property tax adjustments are paid. It combines the former payments to individual taxpayers into one adjustment amount paid to the applicable municipality. For fiscal year 2008, that amount was paid to the municipality in which the homestead is located on or around July 1, 2007 for timely filed homestead declarations, and will be displayed as a credit toward the property tax due on the taxpayer's 2007–08 property tax bill. A second payment to the municipalities occurred on or around September 15, 2007 for late filed declarations.

In addition to the bifurcated taxes in the General Fund and Transportation Fund mentioned above, and the property taxes discussed in this section, revenues from the State lotteries under Chapter 14 of Title 31 are also dedicated to the Education Fund as is one-third of the State's sales and use tax and motor vehicle purchase and use tax effective July 1, 2004 pursuant to Act 68 referenced above. In addition, the State allocates 30% of Medicaid reimbursement revenues for qualified medical services provided to students in grades K-12 to the Education Fund consistent with Title 16 VSA, Section 2959a and recent changes in federal law governing those reimbursements. The statewide education tax contributed $877.59 million or 86.35% of total Education Fund revenues. Sales and use tax receipts for fiscal year 2007 totaled $111.24 million, or 10.95% of total Education Fund revenues. Purchase and use tax receipts for fiscal 2007 were $26.87 million, corresponding to 2.64% of total Education Fund revenues. The Education Fund also has earned minimal amounts interest income over the years. In fiscal year 2007, the State lottery transferred $23.3 million to the Education Fund.

Federal Receipts

In fiscal year 2006, the State's special revenue funds received approximately $1.196 billion in total from the federal government on a GAAP basis, an increase of $45.9 million or 4% over fiscal year 2005. In fiscal year 2007, the State's special revenue funds federal cash receipts were approximately $1.231 billion. These receipts represent reimbursement to the State for expenditures for various health, welfare, educational, and highway programs, and distributions of various restricted or categorical grants-in-aid. The fiscal year 2008 Appropriations Act, as passed, anticipates approximately $1.3 billion in federal receipts.

Federal grants normally are restricted as to use depending on the particular program being funded, and normally require matching resources by the State. The largest categories of federal grants and reimbursements in fiscal year 2006 were made in the areas of Human Services, $823.9 million; Transportation, $149.6 million; Education, $111.7 million; Employment and Training, $19.4 million and Public Safety, $44.1 million.

Tobacco Litigation Settlement Fund

Based on the Master Settlement Agreement with tobacco companies, Vermont's expected and actual receipts of settlement funds are as follows (in millions):

	Master Settlement	Expected[1]	Actual
Fiscal year 2001	$28.47	$28.47	$24.68
Fiscal year 2002	34.18	34.18	31.14
Fiscal year 2003	34.51	34.51	30.63
Fiscal year 2004	28.80	28.80	25.82
Fiscal year 2005	28.80	26.10	26.20
Fiscal year 2006	28.80	24.50	24.06
Fiscal year 2007	28.80	22.60	24.42
Fiscal year 2008	29.37	39.50[2]	*

[1] Determined during third quarter of each fiscal year.

[2] Expected payments include $29.37 million in Master Settlement payments, less $2.83 million of estimated Master Settlement payments to be withheld and certain other minor adjustments. The State also expects to receive approximately $13.0 million in Strategic Contribution Payments (as defined in the Master Settlement Agreement), although the State also expects a currently unknown portion of the Strategic Contribution Payments may be withheld.

* Not available.

Pursuant to the Master Settlement Agreement, in addition to regular Master Settlement payments, beginning in fiscal year 2008, Vermont is to receive up to approximately $13 million in Strategic Contribution

Payments (as defined in the Master Settlement Agreement) per year for ten years. Both the regular Master Settlement payments and the Strategic Contribution Payments are subject to withholding adjustments based on inflation, the effect of any decreases in the sale of tobacco products to the base year among participating manufacturers and certain other adjustments. Various aspects of the Master Settlement Agreement remain in litigation or arbitration in venues across the country.

In fiscal year 2000, the Vermont Legislature established a special Tobacco Litigation Settlement Fund to be administered by the State Treasurer. Payments under the Master Settlement Agreement are deposited into the Tobacco Litigation Settlement Fund. The State of Vermont targets these revenues specifically for tobacco enforcement, prevention and education programs, substance abuse and youth protection programs in the Agency of Human Services. These funds are also used to support Medicaid spending but are not used as a supplemental revenue source to fund other core governmental operations. Any unexpended receipts at the end of each fiscal year are earmarked for the separately established Tobacco Investment Trust Fund, a trust established to eventually endow the education and prevention programs. The balance in the Tobacco Investment Trust Fund at the end of fiscal year 2007 was $30.9 million.

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS

The following information presented under the above heading is presented on a budgetary (or cash) basis.

Fiscal Year 2004

With strong revenue results in the final four months, the State finished fiscal year 2004 with a total of $972.4 million in General Fund revenue. With total appropriations of $915.4 million, the resulting operating surplus for fiscal year 2004 was $57.0 million.

State revenues were greatly influenced by unexpected receipts from the Federal government. As part of the 2003 Federal Tax Cut and Economic Stimulus package, the State received $50 million in one-time Federal aid plus $32.9 million in enhanced Medicaid support (to Vermont's Health Access Trust Fund). This assistance to the State's General Fund enabled Vermont to bolster various reserve accounts, make one-time expenditures for investments in computer upgrades, tourism marketing, public safety, and corrections.

The General Fund operating surplus of $57.0 million was reduced by transfers to various Internal Service Funds ($10.0 million), the Transportation Fund ($4.5 million), and other funds ($4.6 million). As a result, a net transfer of $20.9 million was made to the General Fund Budget Stabilization Reserve bringing it to statutory maximum target of $44.5 million. In addition, $15.6 million was dedicated to the General Fund Surplus Reserve to carry forward to fiscal year 2005.

Fiscal year 2004 Transportation Fund revenues totaled $214.6 million. With previous year balances and transfers, the total available for fiscal year 2004 was $224.12 million. Appropriations totaled $222.24 million and the Transportation Fund had an operating surplus of $1.9 million. Allocation of the operating surplus included a $0.1 million transfer to various designations and transfers of $1.8 million to various reserves including $1.4 million to the Transportation Budget Stabilization Reserve. The balance of the Transportation Fund Stabilization Reserve at the end of fiscal year 2004 was $10.5 million, which is the maximum statutory target.

The Education Fund experienced a $28.3 million operating surplus for fiscal year 2004. Allocations of the operating surplus included designation of $1.8 million for fiscal year 2005 use and a transfer of $11.7 million to the Education Fund Budget Stabilization Reserve. The Education Fund ended fiscal year 2004 with an undesignated surplus balance of $14.8 million, and an Education Fund Budget Stabilization Reserve of $22.8 million, which is the maximum statutory target.

Fiscal Year 2005

The State ended fiscal year 2005 with General Fund revenues of $1,035.33 million. The General Fund experienced an 8.9% increase over the previous year results. Strong performances in personal income tax, corporate income tax and net sales and use tax contributed to a 5.52% increase over the previous forecast made earlier in fiscal year 2005. It is important to note that the majority of the increase came from two key sources; personal income tax and corporate income tax.

The General Fund operating surplus of $45.13 million was reduced by transfers to the Transportation Fund ($4.8 million), Health Access Trust Fund ($14.3 million), various Internal Service Funds ($3.7 million) and other funds ($1.4 million). After a transfer to the Budget Stabilization Reserve of $1.3 million, $19.6 million remained as a General Fund Surplus Reserve for use in fiscal year 2006.

The State ended fiscal year 2005 with an operating deficit of $7.3 million in the Transportation Fund. The shortfall was covered by reverting available appropriations at year end. None of the reversions were a result of project cuts or deliberate delays. The Transportation Fund ended the fiscal year with a Budget Stabilization Reserve of $11.1 million, the maximum allowed by statute.

The State ended fiscal year 2005 with Education Fund revenues of $153.9 million and an operating loss of $10.58 million. The shortfall was covered by a transfer from the unallocated/unreserved balance. The Education Fund Budget Stabilization Reserve was $22.9 million, the maximum allowed by statute.

Fiscal Year 2006

The State ended fiscal year 2006 with General Fund revenues of $1,111.91 million. The year-over-year growth was 7.4%. Compared to target, the year end revenues were 3.9% above the January revenue forecast of $1,070.4 million and 5.0% above the previous July forecast of $1,059.0 million. Both personal income and corporate income tax receipts were unexpectedly strong resulting in the majority of the increase. The meals and rooms tax was the most significant under-performing revenue component due to a mild winter, an extremely wet spring, and high gasoline prices, which negatively impacted tourism related income.

The General Fund Operating Surplus of $43.4 million was reduced by transfers to the Transportation Fund ($10.0 million), various Internal Service Funds ($2.0 million) and other funds ($1.9 million).

The Transportation Fund revenues were budgeted at $222.79 million. On July 14, 2005, the Emergency Board agreed to reduce the fiscal year 2006 Transportation Fund revenue forecast to $217.3 million. On January 11, 2006, the Emergency Board agreed to reduce the fiscal year 2006 Transportation Fund revenue forecast again to $215.6 million, a downward revision of $1.7 million (or 0.8%). Actual revenues for the fiscal year ending June 30, 2006 were $209.9 million. The operating shortfall for fiscal year 2006 of $3.92 million was covered by reverting available appropriations at year end. None of the reversions were a result of project cuts or deliberate delays. The Transportation Fund ended the fiscal year with a Budget Stabilization Reserve of $11.04 million, the maximum allowed by statute.

The Education Fund Revenues were budgeted at $137.8 million for fiscal year 2006. On July 14, 2005, the Emergency Board agreed to increase the fiscal year 2006 revenue forecast to $156.4 million. The January 11, 2006 revenue forecast downgraded the Education Fund Revenues by $0.9 million, or 0.6% of the July 5, 2005 consensus forecast, to $155.5 million. In fiscal year 2006, the Education Fund experienced strong revenue growth in all funding components: lottery, sales and use tax, motor vehicle purchase and use tax and net interest. The increase in housing prices continues again this year and drives the increase in sales and use tax. The Education Fund ended the fiscal year with an operating surplus of $1.4 million with $24.32 million in the Budget Stabilization Reserve, 90.8% of the statutory maximum.

Fiscal Year 2007

The State ended fiscal year 2007 with General Fund revenues of $1,151.4 million and an operating surplus of $31.7 million. The year-over-year growth was 3.5%. Compared to target, year end revenues were 2.4% above the January 2007 revenue forecast of $1,124.1 million and 2.6% above the July 2006 forecast of $1,122.7 million. Both personal income tax and corporate income tax receipts were unexpectedly strong and account for the majority of the increase. The sales and use tax was the most significant under-performing tax missing forecast by 3.38% or $3.87 million. The operating surplus was reduced by transfers to the Transportation Fund ($8.0 million) and other funds ($1.1 million). The General Fund ended the fiscal year with $55.22 million in Budget Stabilization Reserves, 100% of statutory maximum.

The State ended fiscal year 2007 with Transportation Fund revenues of $219.9 million and an operating shortfall of $3.1 million, which was covered by reverting available appropriations at year-end. None of the reversions were a result of project cuts or deliberate delays. The Transportation Fund ended the fiscal year with $10.67 million in Budget Stabilization Reserves, 100% of statutory maximum.

The State ended fiscal year 2007 with Education Fund revenues of $163.3 million and an operating surplus of $19.9 million. The Education Fund Budget Stabilization was at 100% of statutory maximum with a $28.3 million balance.

Fiscal Year 2008 General, Transportation and Education Funds to Date

The State, by statute, establishes a consensus revenue forecast each July and the following January. On January 16, 2007, current law General Fund revenues in fiscal year 2008 were projected to be $1,152.7 million and on June 4, 2007, the General Assembly passed a fiscal year 2008 budget consistent with this revenue forecast. On July 24, 2007, the Emergency Board met to consider the forecast and agreed to a General Fund revenue forecast of $1,170.2 million for fiscal year 2008, which represented an increase over the estimates made when the budget was being prepared earlier in 2007. The increases in the estimates in July 2007 reflect an improved Vermont economy and steady revenue growth since the spring of 2003, albeit slower growth in fiscal year 2007 and fiscal year 2008. The budget as passed in Act 65 for fiscal year 2008 may be found at http://www.leg.state.vt.us/database/status/summary.cfm?Bill=H%2E0537&Session=2008.

Through September 30, 2007, General Fund revenues were $288.80 million, up 3.3% or $9.23 million against a July 2007 target of $279.60 million. Greater then expected results in the Personal Income Tax, Rooms and Meals Tax and the Corporate Income Tax accounted for the strong first quarter showing.

On January 16, 2007, the Emergency Board agreed to a Transportation Fund revenue forecast of $232.3 million for fiscal year 2008. On July 24, 2007, the Emergency Board agreed to a revised fiscal year 2008 revenue forecast of $229.4 million, a $2.9 million or 0.1% downgrade. The downgrade in the estimate reflects the continuing drag high gas prices are having on the economy and the second consecutive year of poor winter weather, which adversely impacted the State's ski season. Actual receipts experience for fiscal year 2007 was also a factor in the downward forecast.

Through September 30, 2007, Transportation Fund revenues were $55.37 million, down 3.24% or $1.85 million against a July 2007 target of $57.22 million. Underperformers in the Transportation Fund included the Gasoline Tax down 1.25% or $0.8 million against target, the Diesel Tax down 2.72% or $0.5 million against target and the Motor Vehicle Fees, down 1.89% or $1.26 million against target.

On January 16, 2007 the Emergency Board agreed to an Education Fund revenue forecast of $168.5 million for fiscal year 2008. On July 24, 2007, the Emergency Board agreed to a fiscal year 2008 forecast of $166.4 million, a downgraded forecast of $2.1 million or 1.3%. A downgrade in Sales and Use Tax of $2.8 million or 2.4% accounted for the overall downgrade to the Education Fund.

Through September 30, 2007, Education Fund revenues were $40.24 million, down 1.2% or $0.5 million against a July 2007 target of $40.73 million. Underperformance in the Sales and Use Tax was offset by greater then expected results in the Lottery Fund profits.

Fiscal Year 2008 General Fund Results to Date

July 1, 2007 – September 30, 2007
(Un-audited)

	Revenue Estimate[1]	Revenue Collections
Personal Income Tax	$140,334,400	$143,847,100
Sales and Use Tax	57,244,100	57,544,700
Corporate Income Tax	15,278,500	18,901,500
Meals and Rooms Tax	32,019,700	34,361,000
Property Transfer	3,206,500	3,732,100
Other Revenues	31,483,800	30,412,800
Total	$279,567,000	$288,799,200

[1] Official Revenue Estimates as of July 24, 2007.

Fiscal Year 2008 Transportation Fund Results to Date

July 1, 2007 – September 30, 2007
(Un-audited)

	Revenue Estimate[1]	Revenue Collections
Gasoline Tax	$17,302,700	$16,878,400
Diesel Tax	4,126,500	3,672,400
Purchase and Use Tax	14,462,900	13,825,500
Motor Vehicle Fees	16,586,900	16,676,800
Other Revenues	4,749,800	4,315,500
Total	$57,222,800	$55,368,600

[1] Official Revenue Estimates as of July 24, 2007.

Fiscal Year 2008 Education Fund Results to Date*

July 1, 2007 – September 30, 2007
(Un-audited)

	Revenue Estimate[1]	Revenue Collections
Sales and Use Tax	$28,622,000	$28,869,300
Lottery	4,778,500	4,632,200
Motor Vehicle Purchase & Use Tax	7,231,400	6,912,700
Other Revenues	98,400	(174,700)[2]
Total	$40,730,400	$40,239,500

* Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of July 24, 2007.
[2] In prior and current fiscal years, the General Fund has advanced funds for Education Fund expenditures prior to significant revenues being received by the Education Fund. During this time, the Education Fund incurs interest expense payable to the General Fund, which is budgeted as a negative revenue.

Budget Stabilization Reserves

The 1987 the General Assembly initially established the General Fund Budget Stabilization Reserve to "reduce the effects of annual variations in State revenues upon the budget of the State by retaining surpluses in General Fund revenues." Under current law, Budget Stabilization Reserves have been established within the General Fund, the Transportation Fund, and the Education Fund.

Act No. 61 of the 1997 Legislative session amended both the General Fund and Transportation Fund budget stabilization laws by stipulating that the respective reserves shall consist of 5% of the prior year budgetary appropriations and further stipulated that in any fiscal year if the General Fund or Transportation Fund is found to have an undesignated fund deficit as determined by generally accepted accounting principles, the applicable Budget Stabilization Reserve shall be used to the extent necessary to offset that deficit. This was done to reflect the State's change to reporting its financial condition in accordance with generally accepted accounting principles.

The General Fund Budget Stabilization Reserve ended fiscal year 2004 fully funded at $44.49 million with an additional $15.63 million in General Fund Surplus Reserve. On June 30, 2004, the Human Services Caseload Reserve totaled $18.54 million, a $1.30 million increase over the fiscal year 2003 balance. The Transportation Fund Budget Stabilization Reserve ended the year fully funded at $10.54 million. The Education Fund Budget Stabilization Reserve ended fiscal year 2004 fully funded at $22.76 million. The General Fund and Transportation Fund Budget Stabilization Reserves are statutorily capped at 5% of prior year appropriations while the Education Fund Budget Stabilization Reserve is statutorily required to be between 3.5 and 5.0 percent of prior year education spending (excluding the General Fund transfer, which is already considered in the General Fund Stabilization Reserve).

As of June 30, 2005, the General Fund Budget Stablization Reserve was $45.77 million with an additional $19.64 million in General Fund Surplus Reserve. On June 30, 2005 the Human Services Caseload Reserve totaled $18.54 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2005 was $11.10 million. The Education Fund Budget Stabilization Reserve was $22.90 million as of June 30, 2005. For fiscal year 2005, the

State fully funded the Budget Stabilization Reserves for the General Fund, Transportation Fund and Education Fund at their respective maximum statutory levels on June 30, 2005.

As of June 30, 2006, the General Fund Budget Stabilization Reserve was $51.81 million with an additional $21.14 million in the General Fund Surplus Reserve. On June 30, 2006, the Human Services Caseload Reserve totaled $8.45 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2006 was $11.04 million. The Education Fund Budget Stabilization Reserve was $24.32 million as of June 30, 2006. For fiscal year 2006, the State fully funded the Budget Stabilization Reserves for the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve at June 30, 2006 was 129.7% of the minimum and 90.8% of the maximum amounts allowed by State statute.

As of June 30, 2007, the General Fund Budget Stabilization Reserve was $55.22 million with an additional $10.69 million in General Fund Surplus Reserve. On June 30, 2007, the Human Services Caseload Reserve totaled $16.98 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2007 was $10.67 million. The Education Fund Budget Stabilization Reserve was $28.25 million as of June 30, 2007. For fiscal year 2007, the State fully funded the Budget Stabilization Reserves for the General Fund, the Transportation Fund and Education Fund at their respective maximum statutory levels on June 30, 2007.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2004 through 2007 and as passed for fiscal year 2008 for the General Fund, the Transportation Fund, and the Education Fund—the primary operating funds of the State.

General Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2004 – 2008
($ in Millions)

	Actual FY2004	Actual FY2005	Actual FY2006	Actual FY2007	As passed FY2008
Sources					
Current Law Revenues	$921.65	$1,035.33	$1,111.91	$1,151.36	$1,153.46
Implement 2003 H.480 (Act 68) Sales Tax	28.90	0.00	0.00	0.00	0.00
Direct Applications & Reversions	15.96	18.61	14.79	25.69	11.47
Additional Property Transfer Tax	5.88	13.77	10.33	8.29	4.43
Liquidate Debt Service/Bond Prem. Reserve[2]	0.00	0.00	0.10	0.00	0.00
Current Year Sources	972.39	1,067.71	1,137.13	1,185.34	1,169.36
For Appropriations Prior Year Surplus Reserve	0.00	15.63	19.64	21.84	10.67
Total Sources	972.39	1,083.34	1,156.77	1,207.18	1,180.03
Uses					
Base appropriations	907.17	984.71	1,052.17	1,121.08	1,157.70
Pay Act	0.52	5.74	7.43	3.80	0.00
Contingent Base Appropriations	0.00	0.00	0.00	0.00	0.00
One-time Appropriations	26.21	35.54	16.27	8.90	0.00
Additional GF to Ed Fund - Act 68 2003	28.90	0.00	0.00	0.00	0.00
One-time Appropriations P/Y Surplus Reserve	0.00	0.00	11.78	14.76	12.56
Contingent One-time Appropriations from Same Year Surplus	8.41	12.22	24.72	23.71	0.00
Other Bills	0.00	0.00	1.06	3.20	0.00
Human Services Caseload Reserve	1.70	0.00	0.00	0.00	0.00
Enhanced Federal Financial Participation	(7.50)	0.00	0.00	0.00	0.00
Federal Flexible Funding Replacement	(50.00)	0.00	0.00	0.00	0.00
Total Uses	915.41	1,038.21	1,113.43	1,175.45	1,170.26
Operating Surplus (deficit)	56.98	45.13	43.34	31.73	9.77
Transfers of Surplus (to) / from Other Funds					
Transportation Fund	(4.47)	(4.77)	(10.02)	(8.00)	0.00
Tobacco Settlement	0.00	0.00	0.00	0.00	0.00
General Bond Fund	(1.71)	1.71	(0.70)	(0.18)	0.00
Internal Service Funds	(10.01)	(3.72)	(2.00)	(4.45)	(0.45)
Health Access Trust Fund	(2.00)	(14.29)	0.00	0.00	0.00
Other Funds	(0.93)	(3.14)	(13.53)	(5.00)	(7.00)
Human Service Caseload Reserve	0.00	0.00	12.30	8.53	0.00
Total Transfers (to) / from Other Funds	(19.12)	(24.21)	(13.95)	(9.10)	(7.45)
Transfers of Surplus (to)/from Reserves					
Budget Stabilization Reserve	(20.93)	(1.28)	(6.04)	(3.41)	(2.21)
Human Services Caseload Reserve	(1.30)	0.00	(2.21)	(8.53)	0.00
Reserved for transfer to Education Fund	0.00	0.00	0.00	0.00	0.00
Reserved for transfer to Debt Service[2]	0.00	0.00	0.00	0.00	0.00
Reserved in GF Surplus Reserve	(15.63)	(19.64)	(21.14)	(10.69)	(0.11)
Total Reserved in the GF	(37.86)	(20.92)	(29.39)	(22.63)	(2.32)
Total Transfer of Surplus	(56.98)	(45.13)	(43.34)	(31.73)	(9.77)
Unallocated Operating Surplus	0.00	0.00	0.00	0.00	0.00
GF Reserves (cumulative)					
Budget Stabilization Reserve	44.49	45.77	51.81	55.22	57.43
Human Services Caseload Reserve	18.54	18.54	8.45	16.98	14.38
Reserved for Bond Premium/Debt Service[2]	0.00	0.00	0.70	0.18	0.00
Reserved in GF Surplus Reserve	15.63	19.64	21.14	10.69	0.11
Total GF Reserve Balances	$78.66	$83.95	$82.10	$83.07	$71.92

[1] Results may not add due to rounding.

[2] Per 32 V.S.A. 954 (a), bond premium received from issuance of debt is to be used as part of the first interest or principal payment to bondholders.

Transportation Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2004 – 2008
($ in Millions)

	Actual FY 2004	Actual FY 2005	Actual FY 2006	Actual FY 2007	As Passed FY 2008
Sources					
Current Law Revenues	$214.57	$209.13	$209.82	$219.97	$229.62
Federal Reimbursements	3.91	0.00	0.00	0.00	0.00
Refund of Prior Year	0.00	1.53	0.00	0.00	0.00
Direct Applications & Transfers In	5.64	7.37	0.54	0.88	0.00
Current Year Sources	224.12	218.03	210.36	220.85	229.62
For Approp from General Fund Transfer	0.00	0.00	0.00	0.00	0.00
For Approp from RMMTC Reserve	0.00	0.00	0.00	0.00	0.00
Prior Year Unallocated Operating Surplus	0.00	0.00	0.00	0.00	3.22
Total Sources	224.44	218.03	210.36	220.85	232.84
Uses					
Base Appropriations	221.03	220.54	218.83	229.25	229.67
Budget Adjustments	0.93	0.75	0.00	(7.67)	0.00
Excess Receipts	0.27	0.02	0.00	0.00	0.00
Pay Act	0.00	1.46	1.25	2.41	1.21
Rescission	0.00	0.00	(5.80)	0.00	0.00
Contingent One-time Approp from Prior Year	0.00	2.60	0.00	0.00	0.00
Total Uses	222.24	225.37	214.28	223.99	230.88
Operating Surplus (deficit)	1.89	(7.34)	(3.92)	(3.14)	1.96
Allocation of Surplus					
Transfers of Surplus (to) / from Other Funds:					
General Fund	4.77	4.77	10.02	8.00	0.00
Downtown Fund	(0.80)	(0.80)	(0.80)	(0.80)	(0.80)
Central Garage Fund	(2.11)	2.60	(5.00)	(0.85)	(0.90)
FMS Development Fund	(1.56)	1.25	0.00	0.00	0.00
Art Acquisition Fund	0.00	0.00	0.00	0.00	0.00
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	(0.06)	7.45	3.85	5.98	(2.07)
Reserved in TF (designated):					
Bond Insurance Premium Reserve	(0.13)	0.13	0.00	0.00	0.00
Transportation FMS Development Fund	(0.31)	0.31	0.00	0.00	0.00
Budget Stabilization Reserve	(1.38)	(0.56)	0.05	0.37	(0.53)
Total Reserved in the TF (designated)	(1.82)	(0.12)	0.05	0.37	(0.53)
Total Allocated	(1.89)	7.33	3.90	6.35	(2.60)
Unallocated Operating Surplus / (deficit)	0.00	0.00	0.00	3.22	(0.64)
TF Reserves (cumulative)					
Bond Insurance Premium Reserve	$0.13	$0.00	0.00	0.00	$0.00
Transportation FMS Development Fund	0.31	0.00	0.00	0.00	0.00
Budget Stabilization Reserve	10.54	11.10	11.04	10.67	11.20
Rutland MMTC Reserve	0.00	0.00	0.00	0.00	0.00
Total TF Reserve Balances	$10.98	$11.10	$11.04	$10.67	$11.20

[1] Results may not add due to rounding.

Education Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2004 – 2008
($ in Millions)

	Actual FY 2004	Actual FY 2005	Actual FY 2006	Actual FY 2007	As Passed FY 2008
Sources					
Current law revenues	$ 80.38	$ 29.87	$ 28.87	$ 28.78	$ 29.50
Current Law - Sales Tax Change (after FY04)	0.00	103.60	108.46	111.24	116.70
Lottery Revenue	20.30	20.38	22.88	23.30	23.60
Homestead Property Tax [Act 68]	N/A[2]	346.56	394.40	422.53	304.71
Non-Residential Property Tax [Act 68]	N/A[2]	385.82	418.08	455.06	478.17
Statewide Property Tax [Act 60]	487.54	N/A[2]	N/A[2]	N/A[2]	N/A[2]
Local Share Property Tax Receipts [Act 60]	38.36	N/A[2]	N/A[2]	N/A[2]	N/A[2]
General Fund Appropriations	268.40	249.30	259.30	282.38	280.20
Medicaid Reimbursement	8.63	9.62	7.29	5.63	8.50
Interest on Fund Balance	(0.23)	(0.51)	(0.68)	(1.28)	(3.27)
Total Sources	903.37	1,144.63	1,238.60	1,327.64	1,238.11
Uses					
Base appropriations	832.78	1,155.28	1,241.70	1,308.70	1,258.97
Local Share Payments	42.00	0.00	0.00	0.00	0.00
School Construction Assistance	2.13	1.39	0.45	0.38	0.28
Total Uses	876.91	1,156.67	1,242.14	1,309.08	1,259.25
Revenue Surplus/(Deficit)	26.46	(12.04)	(3.55)	18.56	(21.14)
Appropriation Surplus/(Deficit)	1.82	1.47	4.93	1.42	0.00
Operating Surplus (deficit)	28.28	(10.58)	1.38	19.98	(21.14)
Education Fund Balance: Start of Fiscal Year					
Budget Stabilization Reserve	$ 11.08	$ 22.76	$ 22.90	$ 24.32	$ 28.25
Cumulative Prior Year Appropriation Surplus/(Deficit)	0.05	1.87	1.75	5.03	4.98
Prior Year Unallocated/Unreserved	0.08	14.85	4.25	0.00	16.10
Total	$ 11.20	$ 39.48	$ 28.90	$ 29.36	$ 49.33
Operating Surplus/(Deficit) Allocation					
Transfer to/(from) the Stabilization Reserve	$ 11.69	$ 0.14	$ 1.42	$ 3.92	$ (5.04)
Transfer to/(from) Continuing Appropriations	1.82	(0.12)	3.28	(0.05)	0.00
Transfer to/(from) Unallocated/Unreserved	14.78	(10.60)	(4.25)	16.10	(16.10)
Education Fund Balance: End of Fiscal Year	$ 39.48	$ 28.90	$ 29.36	$ 49.33	$ 28.19

[1] Results may not add due to rounding.
[2] Act 68, the property tax finance system that superseded Act 60, was implemented effective in fiscal year 2005. Due to the fact that the requirements contained in Act 68 modified or deleted certain requirements of Act 60, the designation "Not Applicable (N/A)" means either the Act 60 or Act 68 funding mechanism was not applicable and hence no revenues were collected.

REVENUE ESTIMATES

Act No. 178 of the 1996 Adjourned Session established a mechanism by which the State adopts official revenue estimates for the current and subsequent fiscal years. By July 15th and January 15th of each year, and at such other times as the Emergency Board or the Governor deem proper, the joint fiscal office and the Secretary of Administration are to provide to the Emergency Board (comprised of the Governor and the Chairs of the key taxing and spending committees of the Vermont Legislature) their respective revenue estimates for the General, Transportation, and Federal Funds for the current and next succeeding fiscal year. Act 60 added portions of the Education Fund to that statute beginning in July of 1998. The Emergency Board, within ten days of receipt of such estimates, is required to determine an official revenue estimate for the current and next succeeding fiscal year.

A consensus revenue forecast for fiscal years 2008 and 2009 was completed in July 2007 and was approved by the Emergency Board on July 24, 2007 (the "July Forecast"). These estimates reflected a consensus forecast for the U.S. and Vermont economies, the major individual revenue components of each fund, and an overall forecasted level of receipts for the General Fund and Transportation Fund, and major receipts sources other than property tax receipts in the Education Fund. The July Forecast incorporated the relevant aspects of the State's latest short-term economic forecast developed as part of the State's participation in the New England Economic Partnership (N.E.E.P.). The N.E.E.P. organization is a regional economic forecasting group affiliated with leading private sector businesses in New England, major academic and financial institutions in the region, and the Federal Reserve Bank of Boston. It is expected the July Forecast will be updated on or before January 15, 2008 as part of the normal, statutory forecasting cycle.

The following discussion describes the level of revenues estimated, under the July Forecast, that are available for General Fund appropriations in fiscal years 2008 and 2009. Such estimates reflect both the anticipated increase or decrease in collections of the taxes of each category and the allocation of such collections between the General Fund and the Education Fund pursuant to Act 68. The July Forecast is a current law forecast as of July 24, 2007, and includes all revenue changes as passed by the 2007 Vermont General Assembly.

Personal Income Tax: The July Forecast for the personal income tax for fiscal years 2008 and 2009 reflects a consensus assessment of: (1) recent trends in income growth—including real estate and equities-based capital gains realizations, (2) actual receipts trends by major personal income tax sub-component, (3) the most recent consensus forecast for job and wage growth in the State over the period (See "STATE ECONOMY – Economic Activity – The Vermont Outlook"), (4) the full impacts of the national and regional housing market recession, and (5) an expected slowdown in the level of business profits growth for taxpayers that pay their business tax liability through their personal income tax filing (e.g. proprietors, Subchapter S corporations, certain partnerships and similar entities). The July Forecast includes revenue receipts of $593.6 million for fiscal year 2008 and $615.2 million for fiscal year 2009, reflecting a 2.1%, and 3.6% annual growth rate, respectively. Relative to the January 2007 consensus forecast, this revised forecast represents a decline of 1.6 and 0.9 percentage points in the year-over-year growth rate for fiscal years 2008 and 2009, respectively.

Sales and Use Tax: The July Forecast for the sales and use tax for fiscal 2008 and fiscal 2009 reflects recent collections activity in this source during fiscal year 2007, the expected impact on disposable personal income of persistently high energy prices, and the expected increase in revenue from the implementation of the Streamlined Sales Tax Agreement (SSTA) in Vermont beginning on January 1, 2007. The SSTA is expected to increase revenues for the State by collecting sales taxes on a volunteer basis from out-of-state vendors (mostly retail mail order and internet retailers) and from a number conforming sales tax changes in Vermont so that the State could be a part of this multi-state effort. The State's best estimates for fiscal year 2008 and fiscal year 2009 are for increased revenues of $9.4 million and $9.6 million, respectively. The State expects to collect total General Fund sales and use taxes of $233.4 million in fiscal 2008 and an estimated $240.7 million in fiscal 2009. The revised forecast represents a decline of 0.8 percentage points in the year-over-year revenue growth rate for fiscal year 2008 and a 0.4 percentage point decline in the year-over-year revenue growth rate for fiscal year 2009 relative to the January 2007 consensus forecast.

Corporate Income Tax: The July Forecast reflects a change, which began with the nominal 4.1% year-over-year revenue decline during fiscal 2007, from the recent trends in corporate tax collections during fiscal 2003–06 where receipts increased at double-digit annual rates. The July forecast expects that slowing productivity growth and the slowing rate of economic growth overall will dampen corporate profits growth. The forecast for fiscal 2008 and fiscal 2009 expects there will be annual declines in overall corporate tax in the State of 13.6% and 15.8%, respectively, including the revenue restraining effects of claims for State tax credits under the incentives program of the Vermont Economic Progress Council. The July Forecast also includes all of the revenue impacts related to the January 1, 2006 implementation of the unitary tax reform legislation and accompanying tax rate reductions that were enacted during the 2004 session of the Vermont General Assembly. This legislation reduced corporate tax rates and made changes in the way corporations calculated their taxable income.

For fiscal 2008, the July Forecast totals $62.9 million. Fiscal year 2009 receipts are forecasted to be $53.0 million. Relative to the January 2007 consensus forecast, the July Forecast corresponds to a 4.3 percentage point decrease in the expected year-over-year revenue change rate for fiscal 2008 and a similar 4.8 percentage point decrease the year-over-year change in corporate tax revenues in fiscal 2009. The fiscal year 2008–09 forecast numbers also reflect the allocation change in Act 68 where 100% of corporate tax is retained by the General Fund beginning on July 1, 2004 (or the beginning of fiscal 2005) and for each year thereafter.

Meals and Rooms Tax: A continuation of the U.S. and State economic expansion, a bounce-back from the weak 2006–07 Winter ski season, and the continuing drag of persistently high energy prices underpin the fiscal 2008 and fiscal 2009 consensus forecast for this tax source. More specifically, the July Forecast totals $118.8 million, representing an increase at the lower end of this tax source's historic 3% to 4% annual rate of growth range. The July Forecast for fiscal year 2009 totals $122.7 million, an increase of 3.3% versus forecasted receipts for fiscal year 2008. The strong growth rate for meals and rooms tax receipts during fiscal year 2005 included the allocation change under Act 68 where 100% of the gross tax collections received under this tax source are retained by the General Fund beginning on July 1, 2004 (corresponding to the beginning of the State's 2005 fiscal year) and for each succeeding fiscal year thereafter. Relative to the January 2007 consensus forecast, the July Forecast represents a 0.3 percentage point decline in the year-over-year revenue growth rate. For fiscal year 2009, the July Forecast represents an increase of 0.4 percentage points in the year-over-year growth rate relative to the January 2007 consensus forecast.

Other Taxes and Revenues: This category of taxes, fees, and other revenues is comprised of revenue sources ranging from the State's tax on insurance premiums (including captive insurance companies), the inheritance and estate tax, taxes levied on real estate transfers, taxes on property or revenues levied on telephone companies operating in Vermont, fines assessed by regulatory authorities and the judicial system, and other similar levies and revenue assessments. These tax levies and sources have historically mirrored changes in economic activity in Vermont. The July Forecast consensus for these revenue sources reflect historical collections patterns, the federal changes in the inheritance and estate tax, the continuing positive benefits from real estate capital gains, and special factors and circumstances that have been identified in consultation with contacts in various State departments and agencies responsible for receipts collection and monitoring for these sources. The July Forecast fully reflects the allocation changes to affected tax sources as prescribed by Act 68. As has been the case since July 1, 1998, the July Forecast does not include any revenues from lottery profits/sales. The following table compares actual and projected General Fund revenue collections on a fiscal year basis for fiscal year 2005 through fiscal year 2007 and the July Forecast for fiscal year 2008.

Sources (Available to the General Fund)	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Percentage Change '07–'08
Personal Income Taxes	$ 500,464,073	$ 542,012,240	$ 581,188,879	$ 593,600,000	2.1%
Sales and Use Taxes	207,202,785	216,922,395	222,490,082	233,400,000	4.9
Corporate Taxes	60,375,604	75,928,780	72,843,020	62,900,000	-13.6
Meals and Rooms Taxes	112,956,381	111,766,588	114,892,087	118,800,000	3.4
Other Taxes	130,118,135	141,086,760	132,295,483	132,800,000	0.4
Total Taxes	1,011,116,978	1,087,716,762	1,123,709,551	1,141,500,000	1.6
Other Revenues	24,215,748	24,194,571	27,797,364	28,700,000	3.2
Total General Fund	$1,035,332,725	$1,111,911,333	$1,151,506,916	$1,170,200,000	1.6%

Source: Vermont Department of Finance and Management. Fiscal year 2007 information is unaudited and fiscal 2008 data are projected as part of the July Forecast. Totals may not add due to rounding.

The following table reflects budgetary-based General Fund revenue history from fiscal year 2005 through fiscal year 2007 and forecasted revenue amounts for fiscal year 2008 and fiscal year 2009:

General Fund Revenues (Net)
Budgetary Based
($ in Millions)

COMPONENT	Actual 2005	Percent Change	Actual 2006	Percent Change	Actual[1] 2007	Percent Change	Forecast[2] 2008	Percent Change	Forecast[2] 2009	Percent Change
TAXES:										
Personal Income	$ 500.5	16.4%	$ 542.0	8.3%	$ 581.2	7.2%	$ 593.6	2.1%	$ 615.2	3.6%
Sales and Use	207.2	-23.9	216.9	4.7	222.5	2.6	233.4	4.9	240.7	3.1
Corporate	60.4	33.6	75.9	25.8	72.86	-4.1	62.9	-13.6	53.0	-15.8
Meals and Rooms	113.0	27.8	111.8	-1.1	114.9	2.8	118.8	3.4	122.7	3.3
Liquor	12.5	7.1	13.2	5.1	13.7	4.0	14.2	3.8	14.7	3.5
Insurance	50.3	7.0	52.5	4.2	52.9	0.8	53.6	1.4	54.6	1.9
Telephone Receipts	0.4	43.2	0.6	63.4	0.5	-10.9	0.5	-2.3	0.6	4.8
Telephone Property	10.2	0.5	9.8	-3.7	9.4	-3.6	9.3	-1.6	9.2	-1.3
Beverage	5.3	2.0	5.4	2.8	5.5	2.8	5.6	1.5	5.7	1.8
Electrical Energy	2.6	-6.0	2.6	0.0	2.6	1.2	2.7	3.7	2.8	2.6
Estate	18.9	28.2	26.2	39.0	17.8	-32.1	19.0	6.7	21.1	11.1
Property Transfer	14.8	33.1	13.5	-8.9	12.8	-4.5	11.4	-7.4	12.0	5.7
Bank Franchise	8.6	216.6	10.2	18.3	10.5	3.6	10.8	2.7	11.0	1.9
Other Taxes	6.6	52.1	7.2	9.1	6.5	-10.2	5.7	-12.0	5.5	-3.5
TOTAL TAXES:	$1,011.1	6.9%	$1,087.7	7.6%	$1,123.7	3.3%	$1,141.5	1.6%	$1,168.7	2.4%
OTHER REVENUES:										
Business Licenses	$ 2.8	2.9%	$2.8	-0.5%	$2.8	-1.0%	$2.8	1.3%	$2.9	3.6%
Fees	12.5	40.4	13.2	6.1	14.2	7.4	14.8	4.2	15.4	4.1
Services	2.0	22.9	1.3	-35.3	1.5	17.1	1.6	6.7	1.7	6.3
Fines, Forfeits	4.4	-40.2	3.2	-26.7	3.2	-2.1	3.3	3.8	3.4	3.0
Interest, Premiums	2.1	438.3	3.4	60.7	4.0	45.8	5.5	4.1	5.9	7.3
Special Assessments	0.0	-74.7	0.0	NM	0.0	NM	0.0	NM	0.0	NM
Other	0.4	-9.9	0.2	-40.9	0.9	260.9	0.7	-14.3	0.8	14.3
TOTAL OTHER	$24.2	12.6%	$24.2	-0.1%	$27.8	14.9%	$28.7	3.2%	$30.1	4.9%
TOTAL GENERAL FUND	$1,035.3	7.1%	$1,111.9	7.4%	$1,151.5	3.6%	$1,170.2	1.6%	$1,198.8	2.4%

NM means Not Meaningful.
[1] Preliminary and unaudited.
[2] Based on consensus revenue forecast completed in July 2007.
Source: Vermont Department of Finance and Management

MAJOR GOVERNMENTAL PROGRAMS AND SERVICES

Human Services

The Agency of Human Services comprises the following departments and offices:

Office of the Secretary: This Office includes the Division of Administrative Services that provides Agency planning and oversight functions for the Secretary. It also provides support for the Division of Rate Setting, the Director of Housing & Transportation, the Investigations Unit, the Human Services Board, and the Developmental Disabilities Council.

Department of Disabilities, Aging and Independent Living: The Department assists elderly Vermonters and adults with disabilities to live as independently as possible. It helps adults with disabilities to find and maintain meaningful employment. It licenses inpatient health care facilities and long-term care providers.

Department of Corrections: In partnership with Vermont communities, the DOC serves and protects the public by offering a continuum of graduated sanctions for offenders to repair the damage their crimes have caused to victims and communities. The Department operates corrections facilities for incarcerated offenders and Community Correctional Service Centers for offenders convicted of lesser crimes. It also supports 64 Community Reparative Boards that develop sanctions and restorative plans in order for many nonviolent offenders to make amends for their crimes and return value to their communities.

Department of Health: DOH protects and promotes health, and prevents disease and injury through public health programs to maintain and improve the health status of all Vermonters. Programs focus on infectious and chronic disease control and prevention (e.g., injury prevention, and healthy babies programs), surveillance (e.g., disease reporting), and protection (e.g., restaurant inspections). Previously, the Department also oversaw provision of services to adults with mental illness, children and adolescents experiencing a severe emotional disturbance and their families. As of July 1, 2007 the Department reorganized, creating a separate Department of Mental Health. This change is organizational and administrative only with no changes to programs or services.

Department of Mental Health: The Department oversees provision of services to adults with mental illness, children and adolescents experiencing a severe emotional disturbance and their families. As of July 1, 2007, the Department was separated from the Department of Health. This change is organizational and administrative only with no changes to programs or services.

Department for Children and Families: DCF administers several programs that address the basic needs of Vermonters who are unable to provide for themselves and their dependents. These programs promote the well-being of families and individuals through welfare-to-work services, in-kind benefits, and cash assistance. DCF also helps families and individuals lead healthy and independent lives by providing support services and offering educational, information, and prevention services to communities. Social services seek to break the cycle of abuse, neglect, and delinquency. Child care services take a lead role in developing quality child care services in Vermont. The Division of Child Support enforces state and federal statutes to ensure that children receive financial support from absent parents and improves financial security for children by obtaining child support obligations and payments.

Office of Vermont Health Access: The OVHA promotes the well-being of families and individuals through the provision of health care coverage. The OVHA is the state office responsible for the management of Medicaid, the State Children's Health Insurance Program, and other publicly funded health insurance programs in Vermont. As such, it is the largest insurer in Vermont in terms of dollars spent and the second largest insurer in terms of covered lives.

The sources of Agency of Human Services' appropriations for fiscal years 2006, 2007 and 2008 are as follows:

	Fiscal 2006 Appropriations	Fiscal 2007 Appropriations	Current Law Fiscal 2008 Appropriations
General Fund	$ 515,135,718	$ 484,649,118	$ 492,817,061
Federal Funds	714,100,576	832,705,910	878,605,354
Tobacco Settlement	25,441,034	25,643,048	35,546,820
Special Funds	200,355,151	198,832,940	235,936,836
Other Funds	0	10,000	10,000
Total	$1,455,032,479	$1,541,841,016	$1,642,916,071

Medicaid and State Health Insurance Initiatives

Medicaid: Vermont has two major Medicaid waiver demonstrations. The *Global Commitment to Health* demonstration waiver became effective October 1, 2006. Global Commitment was designed to provide Vermont with the flexibility necessary to administer the State's publicly supported health care programs in a member-centered and fiscally sustainable manner. The Global Commitment to Health Medicaid demonstration waiver capitates the federal spending for Medicaid services in Vermont at $4.7 billion for five years, based on a mutually agreed upon base year and actuarially determined trend rate. This capitated arrangement applies to all Medicaid service in Vermont, with the exception of the Long-term Care Services for Elders and People with Physical Disabilities (which is managed under a separate Medicaid demonstration waiver), DSH Payments and the State Children's Health Insurance Program (SCHIP) program. Vermont is financially at risk for managing costs within the capitated amount, and will benefit from any savings accrued due to program efficiencies that are achieved. Under this Demonstration, the Vermont Agency of Human Services (AHS) contracts with the Office of Vermont Health Access (OVHA) as a publicly sponsored managed care organization (MCO) and which adheres to all federal MCO regulations.

The Global Commitment to Health waiver encompasses the traditional mandatory and optional Medicaid populations. The Choices for Care waiver provides long-term care services for the elderly and disabled in both nursing home and home and community based settings. In addition Vermont provides some traditional acute care Medicaid services outside the demonstration waiver to the Choices for Care population. There remains a relatively small continuing non-Medicaid pharmacy program, and the Medicare Part D "clawback" under which the states all subsidize the federal government.

Congress recently voted to reauthorize the SCHIP program but the President's veto of the reauthorization bill was not overridden. While the status of the program remains in doubt, it should be noted that this program is covered under Global Commitment and would continue to be so regardless of the final outcome. If Congress is unable to reauthorize the program or any subsequent Presidential veto is not overridden, the State would see a reduction in the federal match rate for these expenditures of 12.2% resulting in a loss of approximately $495,000 in annual federal matching funds. Any such lost dollars would be covered under the Global Commitment cap.

State Health Insurance Initiative: During the 2006 legislative session the State passed the 2006 Health Care Affordability Act to control the rising costs of health care by managing chronic care and making health care affordable and accessible for all Vermonters. This legislation created an employer-sponsored insurance (ESI) initiative under which Medicaid funding may be used to pay part of the cost of ESI for individuals with incomes under 200% of the federal poverty level. In addition, the legislation established a comprehensive, affordable commercial insurance program called Catamount Health that has a premium assistance program for people with low incomes. Financing comes from individuals (sliding scale premiums), employers with uninsured employees and tobacco taxes. The State's fiscal obligation is protected though enrollment caps. Employer contributions began in the second quarter of calendar 2007and enrollment and coverage began October 1, 2007.

Aid to Municipalities

Significant portions of Vermont's budget are used to support the cities, towns and school districts. The General Fund transfer to the Education Fund for support of K-12 schools is $280.2 million in fiscal year 2008 Additionally the State expects to contribute $40.7 million to the Teachers' Retirement System. Total Education Fund expenditures are $1.3 billion (including the General Fund transfer). Department of Education administration is paid for with General and Federal funds allowing the Education Fund to be spent entirely on direct support of students and reduction of school tax burdens. Additionally, $8.9 million is distributed to towns to reimburse taxes reduced for land conservation and management programs. More than $54 million from all fund sources is spent each year through the Agency of Transportation on town highway programs.

	Fiscal 2006 Appropriations	Fiscal 2007 Appropriations	Current Law Fiscal 2008 Appropriations
State Aid to Local School Districts	$ 966,000,000	$ 1,017,888,625	$1,063,700,000
Special Education Aid to Local Districts	115,996,845	125,050,000	133,564,159
Vermont State Teachers' Retirement System Contributions	24,446,282	38,446,729	40,749,097[1]
Town Highway Grants	37,808,054	42,240,841	40,480,378
Total	$1,144,251,181	$1,223,626,195	$1,278,493,634

[1] The fiscal year 2008 contribution, at $40.7 million, fully funds the actuarial recommendation for the State Teachers' Retirement System.

Additionally, the State provides local direct tax support to individual taxpayers through the following programs:

	Fiscal 2006 Appropriations	Fiscal 2007 Appropriations	Current Law Fiscal 2008 Appropriations
Property Tax Assistance	$119,516,276	$115,350,000[1]	$14,130,963[2]
Land Use Reimbursement	6,898,455	8,113,944	8,861,267
Total	$126,414,731	$123,463,944	$22,992,230

[1] The total spending authority reflected is $2,100,000 greater than the appropriation as amended by Act 65 Section 359 (2007). This accounts for an excess receipt request that was approved on June 14, 2007 to allow payment of property assistance obligations.

[2] In fiscal year 2008, the State Auditor's Office determined that the Education Fund's portion of homeowner property assistance was a revenue offset and not an expenditure. This reduced the projected appropriation by $129,264,550.

Higher Education

The State provides extensive assistance for programs of higher education through a higher education system that includes three major components. These include direct appropriations to the University of Vermont and the Vermont State College system and support through direct financial aid grants to students by the Vermont Student Assistance Corporation, which also receives an annual appropriation.

	Fiscal 2006 Appropriations	Fiscal 2007 Appropriations	Current Law Fiscal 2008 Appropriations
University of Vermont	$39,276,166	$40,847,401	$42,277,344
Vermont State Colleges[1]	24,341,736	25,211,405	26,074,345
Vermont Student Assistance Corporation	17,771,050	18,481,892	19,153,758
Total	$81,388,952	$84,540,698	$87,505,447

[1] Includes Vermont Interactive TV

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2004 to fiscal year 2008.

General Fund Appropriations by Major Function

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008[1]
General Government	$ 42,222,002	$ 46,270,520	$ 47,809,578	$ 56,402,147	$ 60,834,990
Protection to Persons and Property	65,608,963	72,333,692	77,120,857	79,231,276	82,338,006
Human Services	304,140,498	409,863,121	436,101,964	483,628,014	493,209,047
Education	379,192,238	361,906,234	375,646,602	388,366,110	419,696,535
Labor	1,107,259	1,103,541	1,385,839	2,303,684	2,358,195
Natural Resources	15,909,804	19,771,447	21,932,793	25,231,174	25,662,890
Transportation	---	---	---	---	---
Commerce and Community Development	14,006,433	14,792,388	14,522,988	15,475,541	15,865,504
Other – One-time[2]	27,865,690	49,567,862	76,184,413	36,551,717	10,367,000
Debt Service	65,362,579	62,587,361	62,723,384	64,547,179	64,929,281
Total Appropriations	$915,415,466	$1,038,196,166	$1,113,428,418	$1,151,736,842	$1,175,261,448

1 The fiscal year figures for 2008 are presented as appropriated in the 2007 legislative session.
2 One-time appropriations in fiscal years 2004 through 2008.

GOVERNMENTAL FUNDS OPERATIONS

The following table sets forth the total revenues, expenditures and changes in total fund balances for all governmental fund types of the State for fiscal year 2002 through fiscal year 2006 presented on a GAAP basis.

STATE OF VERMONT
ALL GOVERNMENTAL FUND TYPES
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

	Fiscal Year Ended June 30,				
	2002	2003	2004	2005	2006
REVENUES:					
Earnings of Departments:					
Fees	$ 36,708,774	$ 47,770,289	$ 46,613,828	$ 58,290,625	$ 52,813,029
Rents and Leases	1,727,405	912,556	3,524,664	3,498,567	3,799,720
Sales of Service	13,886,288	13,119,135	10,686,898	9,752,341	9,655,535
Federal Funds	964,141,863	1,036,188,776	1,195,394,472	1,149,686,863	1,195,618,641
Fines, Forfeits and Penalties	14,209,581	15,150,570	22,136,295	19,382,893	19,172,068
Interest	6,883,583	5,561,830	4,579,721	7,905,566	11,468,734
Business Licenses	8,468,457	8,998,922	12,878,371	13,618,833	13,981,329
Non-Business Licenses	57,658,175	62,828,447	65,535,249	66,278,454	68,790,914
Special Assessments	21,629,014	22,454,287	25,865,976	25,154,296	27,320,199
Taxes	1,600,725,756	1,615,244,889	1,831,301,567	2,160,130,972	2,337,341,048
Other	78,526,877	85,137,810	77,710,776	69,137,334	58,327,506
Total Revenues	2,804,565,773	2,913,367,511	3,296,227,817	3,582,836,744	3,798,288,723
EXPENDITURES:					
General Government	81,922,934	65,774,389	72,544,440	94,139,825	76,074,999
Protection to Persons and Property	175,976,394	186,419,718	205,591,904	229,844,368	233,227,931
Human Services	1,065,880,257	1,202,966,613	1,299,899,192	1,398,468,010	1,435,028,322
Employment and Training	26,285,028	27,904,668	26,193,011	20,946,037	21,090,488
Education	1,035,570,629	1,090,652,345	1,132,649,530	1,423,696,712	1,524,766,793
Natural Resources	90,056,115	87,357,285	83,100,141	89,228,873	102,878,214
Commerce and Community Development	36,899,379	33,843,415	30,662,190	35,898,807	32,569,614
Transportation	311,133,424	284,978,573	289,728,406	312,593,496	321,895,334
Public Services Enterprises	2,001,936	1,897,774	1,898,161	1,649,863	1,994,246
Debt Service	69,214,647	73,213,994	70,833,946	67,352,699	67,231,076
Total Expenditures	2,894,940,743	3,055,008,774	3,213,100,921	3,673,818,690	3,816,757,017
Excess of Revenues Over (Under) Expenditures	(90,374,970)	(141,641,263)	83,126,896	(90,981,946)	(18,468,294)
OTHER FINANCING SOURCES (USES):					
Bond and Note Proceeds	51,000,000	67,355,000	188,754,448	41,750,088	45,744,195
Lottery Transfers In	16,679,154	16,222,604	19,620,527	20,444,442	23,013,768
Net Operating Transfers In (Out)	4,732,503	19,067,442	44,187	10,572,456	(1,824,364)
Other Sources (Uses)	123,348	(49,113,424)	(144,233,193)	178,860	0
Total Other Financing Sources (Uses)	72,535,005	53,531,622	64,185,969	72,945,846	66,933,599
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(17,839,965)	(88,109,641)	147,312,865	(18,036,100)	48,465,305
Fund Balance, July 1 (as restated)	357,577,512	339,461,551	251,351,910	398,664,775	380,628,675
Fund Balance, June 30	$ 339,737,547	$ 251,351,910	$ 398,664,775	$ 380,628,675	$ 429,093,980

STATE INDEBTEDNESS

State Indebtedness and Procedure for Authorization

The State has no constitutional or other limit on its power to issue obligations or incur indebtedness besides borrowing only for public purposes. In 1989, the Institution Committees of the House and Senate recommended the creation of a Capital Debt Affordability Advisory Committee responsible for overseeing long-term capital planning for the State. The Committee was created by the 1990 General Assembly. See "Capital Debt Affordability Advisory Committee" herein. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May or June preceding such fiscal year, or in subsequent fiscal years.

The State Constitution does not contain provisions requiring submission of the question of incurring indebtedness to a public referendum. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and the manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The State's Public Improvement bonds and the State's Transportation and Highway bonds are paid respectively from the State's General Fund and Transportation Fund.

Pursuant to various appropriation acts, the State has authorized and issued general obligation bonds for a variety of projects or purposes. Each appropriation act usually specifies projects or purposes and the amount of General Fund or Transportation Fund bonds to be issued, and provides that General Fund or Transportation Fund bonds shall be issued in accordance with the Debts and Claims provisions of the General Obligation Bond Law.

Pursuant to the Refunding Bond Act, the State has authorized the issuance of general obligation bonds to refund or to advance refund all or any portion of one or more issues of outstanding general obligation bonds. Most provisions of the General Obligation Bond Law apply to the issuance of such refunding bonds.

In general, the State has borrowed money by issuing general obligation bonds, commercial paper and notes for the payment of which the full faith and credit of the State are pledged. The State, however, also has established certain statewide authorities that have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability. See "Contingent Liabilities" and "Reserve Fund Commitments" hereinafter.

There are no State constitutional provisions limiting the power of the General Assembly to impose any taxes on property or income in order to pay debt service on general obligation indebtedness. There are also no constitutional provisions limiting the power of the General Assembly to enact liens on or pledges of State revenues or taxes, or the establishment of priorities, for payment of such debt service. There are no express statutory provisions establishing any priorities in favor of holders of general obligation indebtedness over other valid claims against the State.

The General Assembly has established by statute various general requirements for the issuance of general obligation notes or bonds. The State Treasurer, with notification to the Governor, may issue notes or other similar obligations including commercial paper in order to raise funds to pay the expenses of government for which appropriations have been made but for which anticipated revenues have not been received, to defray accumulated State deficits, and in anticipation of bonds. The State Treasurer, with the approval of the Governor, is authorized to issue and sell bonds that mature not later than twenty years after the date of such bonds and, except for zero coupon bonds or capital appreciation bonds, such bonds must be payable in substantially equal or diminishing amounts annually. Under the General Obligation Bond Law, except with respect to refunding bonds, the first of such annual payments is to be made not later than five years after the date of the bonds. All terms of the bonds shall be determined by the State Treasurer with the approval of the Governor as he or she may deem for the best interests of the State.

In 2001, the General Assembly added statutory provisions that require any entity that pays a majority of its operating expense in any fiscal year with money appropriated by the State to notify and obtain the approval of the State Treasurer and Governor prior to incurring any debt including, but not limited to, debt incurred through the issuance of bonds, notes, bank loans, mortgages, lease-purchase contracts and capital leases. In 2002, the General Assembly amended this provision to exclude municipalities from the approval requirement, to establish a borrowing threshold of $1 million before approval is required and to clarify that the amounts deemed appropriated do not include non-discretionary federal funds.

The State Treasurer is directed by the General Obligation Bond Law to pay the interest or investment return on and principal or maturity value of bonds when due "without further order or authority" and to pay the interest on and principal of notes, and expenses of preparing, issuing and marketing of such notes when due "without further order or authority." To the extent not otherwise provided, the amount necessary each year to pay the maturing principal or maturity value of and interest or investment return on bonds is required by statute to be included in and made a part of the annual appropriation bill for the expense of State government, and such principal or maturity value of and interest or investment return on bonds as may come due before appropriations for the payment thereof have been made is to be paid from the General Fund or from the Transportation Fund.

The doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State. The provisions of the General Obligation Bond Law above recited do not constitute, in the opinion of Bond Counsel, express consent by the State to be sued by a bondholder or a noteholder, although such consent might be so construed by force of necessary implication. The provision referred to above contained in the General Obligation Bond Law appears, however, to impose a legal duty on the State Treasurer to pay principal of and interest on the Bonds and on other bonds and notes when due, either from the General Fund or from the Transportation Fund or from amounts appropriated therefore by the General Assembly.

Under the General Obligation Bond Law, the State Treasurer has an explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations therefore if amounts in the General Fund or Transportation Fund are insufficient. In the event of failure by the State to make such payment when due, it would appear that a Bondholder may sue the State Treasurer to compel such payment from any moneys available. Under this principle, sovereign immunity would not bar a suit to compel the disbursement of State moneys when a State law imposes a duty to pay.

The State has never defaulted on the punctual payment of principal of or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Debt Statement

The following table sets forth, as of June 30, 2007, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State.

State of Vermont
Debt Statement
As of June 30, 2007
($ in thousands)

General Obligation Bonds[1]:	
General Fund	$ 417,698
Transportation Fund	10,594
Special Fund	10,105
Contingent Liabilities:	
VEDA Mortgage Insurance Program	9,068
VEDA Financial Access Program	896
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	479,950
Vermont Housing Finance Agency	92,605
VEDA Indebtedness	70,000
Vermont Telecom Authority	40,000
Gross Direct and Contingent Debt	$1,130,916
Less:	
Contingent Liabilities	(9,964)
Reserve Fund Commitments	(682,555)
Net Tax-Supported Debt	$ 438,397

1 Does not include (i) the Bonds offered hereby or the expected issuance of the Series E Bonds, (ii) general obligation bonds that were refunded, (iii) the potential issuance of refunding bonds, (iv) $19,184,269.77, which is the accreted value of capital appreciation bonds, less the original principal amount of such bonds, and (v) the present value of outstanding capitalized leases in the amount of $600,290. In addition, the State expects to enter into an approximately $4.5 million capitalized lease to fund an energy services contract in fiscal year 2008. Payments due under this expected lease are budgeted to be funded from energy savings realized under the related contract.

Selected Debt Statistics[1]

	2004	2005	2006[2]	2007[2]	Projected 2008[2]
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[3]	$444,683	$440,266	$439,994	$438,397	$440,982
Population[4]	620,795	622,387	623,908	626,947	629,408
Debt Per Capita	$716	$707	$705	$699	$701
Personal Income ($ in millions by fiscal year)	$19,090	$19,978	$20,875	$21,835	$22,992
Debt as a Percent of Personal Income	2.3%	2.2%	2.1%	2.0%	1.9%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[3]	$70,736	$67,450	$67,231	$69,130	$69,419
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,167,512	$1,244,456	$1,321,836	$1,371,446	$1,399,599
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	6.1%	5.4%	5.1%	5.1%	5.0%

Percentage Of Debt To Be Retired (as of June 30, 2007)	Special Fund[6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	75.2%	47.1%	69.2%	48.3%
10 years	100.0	77.1	90.7	77.9
15 years	100.0	93.2	98.5	93.5
20 years	100.0	100.0	100.0	100.0

Sources: Annual Report of the Commissioner of Finance; U.S. Department of Commerce, Bureau of Economic Analysis.

[1] General obligation bond principal debt only, excludes notes, lease/purchase obligations, as well as contingent liabilities and reserve fund commitments, on a budgetary basis. Statistics reflect certain revised data for 2004 through 2006 and projected for 2007 and 2008.
[2] Personal income is on a fiscal year basis and is projected in 2007 and 2008. Fiscal 2006 personal income data is subject to revision. Population for 2007 and 2008 is projected.
[3] Excludes general obligation bonds that were refunded.
[4] Reflects latest population data available from the U.S. Census Bureau for Vermont for July 1 of the indicated year.
[5] Excludes Education Fund Revenues and Federal Revenues. Includes only Special Fund Revenues dedicated to debt service payments.
[6] See "Debt Service Requirements" herein for a description of Special Fund bonds.

Capital Debt Affordability Advisory Committee

The Capital Debt Affordability Advisory Committee was created by the 1990 Vermont General Assembly to estimate annually the maximum amount of new long-term general obligation debt that prudently may be authorized by the State for the next fiscal year. The Committee's estimate is required by law to be based on a number of considerations, historic and projected, including debt service requirements, debt service as a percent of total General and Transportation Fund revenues, outstanding debt as a percent of personal income, and per capita debt ratios. The Committee is comprised of five members, four of whom are ex-officio State officials and one of whom is appointed by the Governor from the private sector for a two-year term. The Committee was directed by law to issue a report by September 30 of each calendar year. The amount of general obligation debt authorized by the Vermont General Assembly in recent years has never exceeded the Committee's recommended levels.

For fiscal year 2001, the Committee voted to recommend a maximum of $34 million as the prudent amount of debt to be authorized and the General Assembly authorized $34 million of additional general obligation bonds. Due to year-end surpluses in fiscal years 2000 and 2001, the State applied $22 million in cash to the $34 million in projects authorized thereby reducing the fiscal year 2001 bond authorization to $12 million. For fiscal year 2002, the Committee voted to recommend a maximum of $39 million as the prudent amount of debt to be authorized and the General Assembly authorized $39 million of general obligation bonds. A total of $51 million of general obligation bonds was authorized, therefore, for fiscal years 2001 and 2002. This authorization was fully exhausted through the issuance of bonds in the fall of 2001. For each fiscal year 2003 and 2004, the Committee voted to recommend a maximum of $39 million and the General Assembly authorized $39 million of general obligation bonds. In fiscal year 2003, $3.2 million of the $39 million of general obligation bonds authorized by the General Assembly were not issued. Such amount was reallocated by the General Assembly and was issued in fiscal year 2004 together with the $39 million of general obligation bonds authorized for fiscal year 2004, for a total of $42.2 million. For fiscal year 2005, the Committee voted to recommend a maximum of $41 million and the General Assembly authorized $41 million of additional general obligation bonds, all of which were issued in fiscal year 2005. For each of fiscal years 2006 and 2007, the Committee voted to recommend a maximum of $45 million and the General Assembly authorized $45 million of additional general obligation bonds. Of the fiscal year 2007 authorization, $44.5 million has been issued and $0.5 million remains available for issuance in subsequent fiscal years. For fiscal year 2008, the Committee authorized $49.2 million of additional general obligation bonds, $35 million of which are being offered hereby and $14.2 million of which are expected to be offered in December 2007. At its meeting in September 2007, the Committee voted to recommend a maximum of $54.65 million of general obligation bonds for fiscal year 2009.

The following table sets forth, as of the dates indicated, the total amount of new debt authorized by the State.

Total New Debt Authorization by Fiscal Year

Fiscal Year	Amount of Authorization (in Millions)
1995	$60.9
1996	50.0
1997	42.8
1998	42.9
1999	39.0
2000	39.0*
2001	34.0*
2002	39.0
2003	39.0**
2004	39.0**
2005	41.0
2006	45.0
2007	45.0***
2008	49.2
2009	54.65****

* Approximately $2 million of revenues were used to pay for capital projects authorized in fiscal year 2000 instead of the proceeds of bonds. Approximately $22 million of revenues were used to pay for capital projects authorized in fiscal year 2001 instead of the proceeds of bonds. This had the effect of reducing the authorized amount of bonds by $2 million in fiscal year 2000 (to $37 million) and by $22 million in fiscal year 2001 (to $12 million).

** In fiscal year 2003, $3.2 million of the $39 million of general obligation bonds authorized by the Legislature were not issued. The State issued such $3.2 million of general obligation bonds together with the $39 million of general obligation bonds previously authorized for fiscal year 2004, for a total of $42.2 million principal amount of bonds issued in fiscal year 2004.

*** In fiscal year 2007, $0.5 million of the $45 million of general obligation bonds authorized by the legislature were not issued. This unissued amount remains authorized and may be issued in subsequent fiscal years.

**** Recommended by the Capital Debt Affordability Advisory Committee; subject to Legislative authorization.

Debt Service Requirements

Set forth below is a schedule of the principal and interest requirements of all general obligation bonds of the State outstanding on June 30, 2007, exclusive of bonds that were refunded in advance of their scheduled maturities. The Special Fund bonds are general obligation bonds issued to refund certain certificates of participation and a lease purchase agreement. This schedule does not reflect the issuance of the Bonds.

STATE OF VERMONT
Debt Service on General Obligation Bonds
As of June 30, 2007

GENERAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2008	$43,124,332	$21,802,010	$64,926,342	$374,573,830
2009	42,324,793	20,498,652	62,823,445	332,249,037
2010	39,323,738	18,805,349	58,129,087	292,925,299
2011	36,687,137	17,361,631	54,048,768	256,238,162
2012	35,237,141	12,818,486	48,055,627	221,001,021
2013	31,391,318	10,484,585	41,875,903	189,609,703
2014	31,258,060	9,389,932	40,647,992	158,351,643
2015	23,909,245	6,662,914	30,572,159	134,442,398
2016	20,804,245	5,625,258	26,429,503	113,638,154
2017	17,924,245	4,766,328	22,690,573	95,713,909
2018	15,688,008	4,030,597	19,718,605	80,025,900
2019	14,822,180	3,299,231	18,121,411	65,203,720
2020	13,077,180	2,689,389	15,766,569	52,126,540
2021	13,172,180	2,066,827	15,239,007	38,954,360
2022	10,492,180	1,552,514	12,044,694	28,462,180
2023	8,612,180	1,138,815	9,750,995	19,850,000
2024	6,550,000	768,125	7,318,125	13,300,000
2025	6,550,000	481,375	7,031,375	6,750,000
2026	4,500,000	194,625	4,694,625	2,250,000
2027	2,250,000	46,125	2,296,125	0

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2008	$1,505,224	$491,638	$1,996,862	$9,088,303
2009	1,494,275	420,374	1,914,650	7,594,028
2010	1,448,483	349,534	1,798,017	6,145,545
2011	1,450,915	280,069	1,730,984	4,694,630
2012	1,435,576	209,793	1,645,369	3,259,054
2013	653,637	140,150	793,787	2,605,417
2014	652,060	112,063	764,123	1,953,357
2015	390,755	81,294	472,049	1,562,602
2016	290,755	65,209	355,964	1,271,846
2017	290,755	52,729	343,484	981,091
2018	191,992	39,855	231,847	789,100
2019	157,820	31,919	189,739	631,280
2020	157,820	25,606	183,426	473,460
2021	157,820	19,293	177,113	315,640
2022	157,820	12,981	170,801	157,820
2023	157,820	6,510	164,330	0

SPECIAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2008	$1,985,000	$510,850	$2,495,850	$8,120,000
2009	2,090,000	405,675	2,495,675	6,030,000
2010	2,205,000	294,715	2,499,715	3,825,000
2011	840,000	186,225	1,026,225	2,985,000
2012	480,000	145,950	625,950	2,505,000
2013	505,000	123,150	628,150	2,000,000
2014	530,000	98,910	628,910	1,470,000
2015	560,000	72,940	632,940	910,000
2016	590,000	45,500	635,500	320,000
2017	320,000	16,000	336,000	0

Short-Term Debt

The Treasurer is authorized to borrow on the credit of the State through the issuance of notes and tax exempt commercial paper (1) to pay expenses of government for which appropriations have been made but for which anticipated revenues have not been received, (2) for the purpose of defraying accumulated State deficits, (3) in anticipation of the receipt of State bond proceeds and (4) for paying costs of issuance of such obligations. In addition, the Treasurer is authorized to enter into credit or liquidity facilities with respect to such obligations.

The State Treasurer may with the approval of the Governor borrow from any fund including restricted funds to defray State Government expenses. Such borrowing may be made twice per year: first from fifteen days preceding to fifteen days following the State's fiscal year end of June 30, and second from December 10 (or earlier if December 10 shall occur on a Friday or Saturday) to January 10 of the subsequent calendar year.

The following table sets forth the maximum amounts of revenue anticipation borrowings outstanding at any date during each of the five most recent fiscal years and the amounts outstanding as of each fiscal year end. Since 1998, the State has met its short term borrowing needs using revenue anticipation notes only, which notes have been paid in full and on time. In fiscal year 2005, the State obtained a bank line of credit in the amount of $20 million for systemic cash flow needs. No borrowings were made under this line of credit. The State had no line of credit or short-term borrowings in fiscal year 2006 or fiscal year 2007. The State has the ability to obtain a line of credit for fiscal year 2008 but currently anticipates no short-term borrowings for the fiscal year.

Revenue Anticipation Notes
($ in Millions)
Fiscal Year Ended June 30

	2002	2003	2004	2005	2006	2007
Maximum Outstanding During Fiscal Year	None	$75	$48	None	None	None
Outstanding at Fiscal Year End	None	None	None	None	None	None

Total Authorized Unissued Debt

The State has issued all but $0.5 million of the bonds authorized to be issued pursuant to Acts adopted prior to fiscal year 2007.

Notwithstanding any provision of law, the State Treasurer is authorized to transfer unspent proceeds derived from the sale of State bonds or notes previously issued for additional projects authorized by the General Assembly; and the State Treasurer is further authorized to issue bonds or notes of the State to replenish such transferred funds for application to the original capital projects. Under Section 954 of Title 32, the State Treasurer shall provide the Secretary of Administration with notification of any such transfers and shall provide the Chairpersons of the House and Senate Committees on Institutions with an annual report on all such transfers during the preceding fiscal year.

Contingent Liabilities

Vermont Economic Development Authority. In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed the Vermont Economic Development Authority in 1993 ("VEDA" or the "Authority") transferring to it the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority and the Vermont Industrial Aid Board. Each of the original entities was delegated a particular segment of industrial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. The Authority is governed by a twelve-member board comprised of the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Secretary of Agriculture, Food and Markets of the State of Vermont, and nine persons appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to $15 million of mortgages made by lenders for the purchase of land and construction of industrial building facilities in the State, to finance machinery and equipment, and to provide working capital. The full faith and credit of the State is pledged to support these activities of the Authority. As of June 30, 2007, the Authority had mortgage insurance contracts outstanding of $9,067,501. The State maintains a dedicated indemnification fund that is funded with annual payments from the Authority to insure against losses in the mortgage insurance program. The balance of this indemnification fund at June 30, 2007 was $1,246,855. At June 30, 2007, a loss on a loan subject to this mortgage insurance program was determined by the Authority to be probable, although the specific amount of loss could not be determined. The Authority estimates the probable loss to range from a minimum of $300,000 to a maximum of $1,500,000. The State is obligated to pay any actual losses incurred by the Authority in excess of the then available fund balance from any other available funds of the State or, if necessary, from the proceeds of bonds or notes of the State, which are authorized to be issued in an amount not to exceed $35 million for the purposes of this program and the one described in the following paragraph. The State has no current expectation of issuing bonds or notes pursuant to this authorization.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lender enrolls in the program. The full faith and credit of the State is pledged in an amount equal to the reserve premium deposited by the participating lenders for each enrolled loan, with the aggregate amount of credit that may be pledged not to exceed $2 million at any time. The State's contingent liability at June 30, 2007 was $895,949.

Reserve Fund Commitments

Vermont Municipal Bond Bank: The Vermont Municipal Bond Bank (the "Bond Bank") was established by the State in 1970 for the purpose of aiding governmental units in the financing of their public improvements by making available a voluntary, alternate method of marketing their obligations in addition to the ordinary competitive bidding channels. By using the Bond Bank, small individual issues of governmental units can be combined into one larger issue that would attract more investors. The Bond Bank is authorized to issue bonds in order to make loans to municipalities in the State through the purchase of either general obligation or revenue bonds of the municipalities. The Bond Bank consists of five directors: the State Treasurer, who is a director ex-officio, and four directors appointed by the Governor with the advice and consent of the Senate for terms of two years. As of June 30, 2007, the Bond Bank has issued 47 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2007 was $479,950,000. The Bond Bank's outstanding bonds have been issued under two separate general bond resolutions, one adopted on May 3, 1988 (the "1988 resolution") and one adopted on February 17, 1972 (the "1972 resolution"). For bonds issued under the 1972 resolution, the Bond Bank is required to maintain a reserve fund at all times equal to the maximum annual debt service requirement. For bonds issued under the 1988 resolution, the Bond Bank is required to maintain a reserve fund equal to the lesser of: the maximum annual debt service requirement, 125% of average annual debt service, or 10% of the proceeds of any series of bonds. The Bond Bank anticipates issuing all additional bonds under the 1988 resolution. If the reserve funds have less than the required amount, the chair shall notify the Governor or Governor-elect of the deficiency. The General Assembly is legally authorized but not legally obligated to appropriate money to maintain the reserve funds at their required levels. Since the participating municipalities have always met their obligations on their bonds the State has never needed to appropriate any money to the reserve fund, and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency: The Vermont Housing Finance Agency was created by the State in 1974 for the purpose of promoting the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency consists of nine commissioners, including ex-officio the Commissioner of Banking, Insurance, Securities and Health Care Administration, the State Treasurer, the Secretary of Commerce and Community Development, or their designees, and six commissioners to be appointed by the Governor with the advice and consent of the Senate for terms of four years. The Agency is empowered to issue notes and bonds in an amount not to exceed $900,000,000 outstanding at any one time. As of June 30, 2007, the Agency's total outstanding indebtedness was $744,782.327.

The Agency's act requires the creation of debt service reserve funds for each issue of bonds or notes based on the Agency's resolutions and in an amount not to exceed the "maximum debt service." Of the debt that the Agency may issue, up to $125,000,000 of principal outstanding may be backed by the moral obligation of the State, which means that the General Assembly is legally authorized but not legally obligated to appropriate money for any shortfalls in the debt service reserve funds for that debt. If the reserve fund requirement for this debt has less than the required amount, under the act, the chairman of the Agency will notify the Governor or the Governor-elect, the president of the senate and the speaker of the house of the deficiency. As of June 30, 2007, the principal amount of outstanding debt covered by this moral obligation was $92,605,000. As of June 30, 2007, the debt service reserve fund requirement for this debt was $7,946,920, and the value of the debt service reserve fund was $8,412,016. Since the Agency's creation, it has not been necessary for the State to appropriate money to maintain this debt service reserve fund requirement.

Vermont Economic Development Authority: The Authority has established a commercial paper program to fund loans to local and regional development corporations and to businesses under certain programs. The Authority's commercial paper for these purposes is supported by a direct-pay letter of credit from a bank. The direct-pay letter of credit is currently secured from various repayment sources, including a $21 million leverage fund held by a trustee and a debt service reserve fund pledge from the State in an amount of $70 million. This debt service reserve pledge is based on a similar structure utilized by both the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency as discussed above. The amount of commercial paper outstanding under this program at June 30, 2007 was $75.25 million.

Vermont Telecom Authority: In fiscal year 2007, the Vermont Legislature created the Vermont Telecom Authority ("VTA") to facilitate broadband and related access to an increased number of Vermonters. While any debt of the VTA will not represent direct indebtedness of the State, the legislation permits the use of contingent debt in the amount of $40 million, employing a moral obligation pledge from the State. The State's role through VTA comprises a minority portion of this overall communications initiative, which is intended to include both public and private funding sources. Debt issued by the VTA is expected to be based on project revenues and is expected to be self-supporting.

PENSION PLANS

The State maintains three statutory pension plans: the Vermont State Teachers' Retirement System, with 10,675 active, 2,901 inactive, 741 terminated, vested and 5,192 retired members as of June 30, 2007; the Vermont State Employees' Retirement System, which includes general State employees and State Police, with 8,411 active, 935 inactive, 790 terminated, vested and 4,399 retired members as of June 30, 2007; and the Vermont Municipal Employees' Retirement System, with 6,166 active, 2,064 inactive, 432 terminated, vested and 1,309 retired members as of June 30, 2007. Each retirement system is serviced by an independent actuarial firm.

Public Employee Retirement Systems Defined Benefit Plans
Analysis of Funding Progress Using GASB Statement No. 25
($ in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
Vermont State Employees' Retirement System							
	6/30/01	$ 954,821	$1,026,993	$ 72,172	93.0%	$278,507	25.9%
	6/30/02	990,450	1,017,129	26,679	97.4	300,994	8.9
	6/30/03	1,025,469	1,052,004	26,535	97.5	319,855	8.3
	6/30/04	1,081,359	1,107,634	26,275	97.6	336,615	7.8
	6/30/05	1,148,908	1,174,796	25,888	97.8	349,225	7.4
	6/30/06*	1,223,323	1,232,367	9,044	99.3	369,310	2.4
	6/30/07*	1,318,687	1,307,643	(11,044)	100.8	386,917	(2.9)
Vermont State Teachers' Retirement System							
	6/30/01	$1,116,846	$1,254,341	$137,496	89.0%	$403,258	34.1%
	6/30/02	1,169,294	1,307,202	137,908	89.5	418,904	32.9
	6/30/03	1,218,001	1,358,822	140,821	89.6	437,239	32.2
	6/30/04	1,284,833	1,424,662	139,829	90.2	453,517	30.8
	6/30/05	1,354,006	1,492,150	138,144	90.7	486,872	28.4
	6/30/06*	1,427,393	1,686,502	259,108	84.6	499,044	51.9
	6/30/07*	1,541,860	1,816,650	274,790	84.9	515,573	53.3

Vermont Municipal Employees' Retirement System							
	6/30/01	$177,928	$158,786	($19,142)	112.1%	$101,873	(18.8%)
	6/30/02	193,278	176,109	(17,169)	109.7	106,986	(16.0)
	6/30/03	222,854	218,533	(4,321)	102.0	126,216	(3.4)
	6/30/04	232,890	225,092	(7,798)	103.5	135,351	(5.8)
	6/30/05	259,076	248,140	(10,936)	104.4	146,190	(7.5)
	6/30/06	288,347	276,552	(11,795)	104.3	148,815	(7.9)
	6/30/07	325,774	306,643	(19,131)	106.2	162,321	(11.8)

Source: Annual Actuarial Valuation Reports

[*] The System's funding method was changed from Entry Age Normal with Frozen Initial Liability to Entry Age Normal effective with the 2006 actuarial valuation.

The following tables set forth the total assets, amount of employee and employer contributions, net investment income, and disbursements including benefit payments, refunds on death and refunds plus interest on withdrawals, for the Vermont State Teachers,' Vermont State Employees' and Vermont Municipal Employees' Retirement Systems defined benefit plans for fiscal year 1997 through fiscal year 2007, inclusive.

Vermont State Teachers' Retirement System Defined Benefit Plan[1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2007	$1,647,057,577	$22,533,479	$37,341,609	$244,425,689	$90,158,642
2006	1,430,822,223	21,884,140	24,446,282	130,835,585	81,056,808
2005	1,333,532,418	21,158,452	24,446,282	115,058,694	73,154,820
2004	1,245,650,105	21,088,345	24,446,282	166,325,045	65,586,721
2003	1,099,109,824	18,820,703	20,446,282	52,506,838	59,619,320
2002	1,090,866,255	18,073,548	20,448,248	(56,937,537)	54,266,491
2001	1,154,185,392	16,350,020	19,143,827	(38,810,722)	48,929,303
2000	1,207,519,089	15,747,082	18,586,240	90,583,761	44,632,926
1999	1,159,656,713	15,684,409	18,080,000	105,919,955	38,879,837
1998	1,021,729,143	14,597,611	18,080,000	144,785,913	36,139,629
1997	900,736,475	14,329,170	18,080,000	161,620,196	33,586,667

Vermont State Employees' Retirement System Defined Benefit Plan[1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2007	$1,392,327,467	$15,456,691	$39,297,002	$192,625,279	$74,873,698
2006	1,219,616,872	14,561,467	36,866,451	115,146,415	68,376,126
2005	1,120,247,149	15,112,105	36,493,435	90,452,723	63,516,893
2004	1,040,927,987	13,716,264	26,645,619	138,426,552	56,322,704
2003	917,711,810	12,171,186	24,394,933	40,435,216	53,795,326
2002	975,195,519	11,723,858	23,788,282	(55,362,596)	51,373,166
2001	1,084,280,086	10,845,315	19,548,598	(78,694,636)	48,176,511
2000	1,176,318,988	8,628,317	19,012,608	113,121,773	45,843,848
1999[3]	1,066,254,319	8,174,412	23,059,182	77,622,035	60,636,039
1998	958,998,101	7,427,456	23,752,988	140,574,272	37,408,346
1997	842,579,617	7,050,071	24,123,075	143,867,034	35,377,546

1 Source: Annual Actuarial Valuation Report and Comprehensive Annual Financial Reports.
2 Net Investment Income is presented in accordance with GASB 25.
3 June 30, 1999 State Employees' Retirement System includes transfers to a newly created Defined Contribution Plan for exempt employees.

Vermont Municipal Employees' Retirement System Defined Benefit Plan[1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2007	$347,810,364	$9,769,882	$8,535,396	$46,633,781	$10,633,672
2006	293,298,875	8,744,718	7,926,436	27,697,371	9,765,131
2005	258,466,735	7,404,119	8,058,810	18,165,860	8,350,089
2004	232,889,559	6,507,268	7,114,813	27,271,821	7,624,175
2003	197,420,510[3]	5,000,479	5,707,184	2,630,247	6,233,647
2002	200,880,056	4,412,699	4,941,465	(2,884,622)	5,877,465
2001[4]	195,169,272	4,066,523	4,571,993	(506,729)	9,215,493
2000	197,020,268	4,414,961	4,788,671	8,624,104	4,357,654
1999	158,723,203	3,574,005	3,960,602	19,618,932	3,862,374
1998[5]	135,323,847	3,311,019	3,714,140	22,863,273	4,809,235
1997	110,145,785	3,220,930	3,541,693	18,486,921	3,320,060

1 Source: Annual Actuarial Valuation Reports and Comprehensive Annual Financial Reports.
2 Net Investment Income is presented in accordance with GASB 25.
3 Two large municipalities joined the Vermont Municipal Employees' Retirement System during fiscal year 2003 and transferred in existing assets totaling over $6.0 million to cover partial liability for past service.
4 June 30, 2001 Vermont Municipal Employees' Retirement System includes transfers to a newly created Defined Contribution Plan.
5 Disbursements for June 30, 1998 in the Vermont Municipal Employee's Retirement System were significantly higher due to the withdrawal from the system of the community of Stowe.

The State appropriates funding for pension costs associated with its two major retirement plans, the Vermont State Employees' Retirement System (VSRS) and the Vermont State Teachers' Retirement System (STRS), covering substantially all State employees and teachers, respectively. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could elect to transfer their current memberships from a contributory to a non-contributory membership class. In 1990, however, the Legislature again made both systems contributory, the Vermont State Teachers' Retirement System effective July 1, 1990 and the Vermont State Employees' Retirement System effective January 1, 1991. The State's contributions to each system are based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are fixed on the basis of the liabilities of the systems as shown by actuarial valuations. The STRS system unfunded liabilities shall be amortized over a 30 year period beginning July 1, 2006, as discussed below.

There is also a Vermont Municipal Employees' Retirement System that was established effective July 1, 1975. Prior to July 1, 1987, the State was statutorily responsible for contributions to the system's pension accumulation fund. Effective July 1, 1987 and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers pay monthly into the pension accumulation fund percentages of the annual earnable compensation of each membership group as "normal" contributions and "accrued liability" contributions. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

State statute provides that at least once in each five-year period, the State's actuary is to make an investigation into the mortality, service, and comprehensive experience of the members and beneficiaries of the system and make recommendations for certain modifications of the actuarial assumptions, as needed. Such a study was completed for the VSRS system for the period covering July 1, 2001 through June 30, 2006. As a result of this experience study performed by Buck Consultants and recent changes by the System's Board of Trustees, changes in the actuarial assumptions were made in the valuation report for the period ending June 30, 2007. The funding interest rate was raised from 8.00% per year to 8.25% per year, the liability for inactive members was raised from 150% to 250% of employee contributions with interest, and various decrement tables were updated to more closely match the anticipated future experience of the system. This report may be found at http://www.vermonttreasurer.gov/documents/retireState/reports/stateExperienceStudy2006.pdf. In the June 30, 2007 valuation, these changes resulted in a decrease in the actuarial accrued liability from $1,323,387,270 to $1,307,642,985 and an increase in the total normal cost from $37,518,748 to $39,091,226. The VSRS system has demonstrated steady improvement in the funded ratio over the past ten years and has achieved a funding ratio of 100.8% for the year ending June 30, 2007.

In the case of STRS, there was a pattern of underfunding of the State contributions paid into the fund, which was addressed with full funding of the recommendation in the fiscal year 2007 and 2008 budgets. The 2005 General Assembly created the Commission on Funding the State Teachers' Retirement System ("Commission") to address underfunding and to make recommendations to ensure an adequate, sustainable, and actuarially sound retirement benefit plan. The Commission published its recommendations in December 2005 for consideration by the Legislature in the session beginning in 2006. One of the recommendations focused on the actuarial method. The actuarial method for both the STRS and the VSRS plans are set by State statute. While the Commission focused on the issues related to STRS, the recommended actuarial change was enacted into law and applied to both VSRS and STRS.

Through fiscal year 2005 the method used was the entry age normal (EAN) with frozen initial liability (FIL). The Legislature has enacted a statutory change revising the method to entry age normal without FIL for the actuarial valuation for the year ending June 30, 2006 which effectively restated the starting balance. Under the previous method, the unfunded liability was frozen at 1988 levels. Any impact of underfunding subsequent to the "freezing" of the liability in 1988 falls to normal cost instead of being added to the unfunded liability as in more conventional funding methods.

In the case of STRS, where there had been substantial underfunding of the annual actuarially required contribution (ARC), the EAN-FIL method had the effect of creating an improving funding ratio although the total required contribution (sum of the amortized unfunded actuarial accrued liability and normal) rapidly escalated. The unfunded actuarial accrued liability is amortized in a deterministic manner under the FIL method, making it easy for the ratio to rise from one year to the next even in the presence of substantial underfunding. The shift to the EAN method therefore has had the effect of increasing the actuarially unfunded liability and reducing the normal contribution. The State therefore believes that the EAN method is a more accurate indicator of actuarial funding progress and it is, in fact, the predominant method used by public retirement systems.

Two additional material changes, based on the Commission's recommendations, impact the STRS valuation completed for June 30, 2006. The actuarial assumed rate of return for investments was raised by 0.25 basis points. This reflects the beneficial effects of the Vermont Pension Investment Committee's unified pension fund investment process and was recommended by the Commission and adopted by the STRS Board of Trustees and is consistent with the recent change adopted by VSRS on the basis of the experience study. In addition to the recommendation to remove the FIL portion of the method and to revise the rate of return assumption, the Commission also recommended, and the Legislature adopted, a change in the amortization of the unfunded liability. The 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective July 1, 2006 for STRS.

With respect to funding, the application of the above changes resulted in a recommended contribution, at the time of completion of the fiscal year 2007 budget, of $38.2 million. The Legislature increased the prior year base appropriation of $24.4 million by an additional $5.0 million to $29.4 million for 2007 and used one time excess of receipts of $7.8 million and an estimated $1.2 million of Medicare D reimbursement funds to fully fund the actuary's recommended contribution in fiscal year 2007. The State Appropriations Bill, as enacted into law included the following provision: "Pursuant to the recommendations of the 2005 commission on funding the Vermont state teachers' retirement system, it is the intent of the general assembly to appropriate the actuarially required contributions necessary to fund an adequate, sustainable, and actuarially sound retirement benefit plan for Vermont teachers by combining annual increases in base spending and surplus revenues as they may be available, so that the full actuarial recommendation will be funded in base appropriations by fiscal year 2010." In October 2006, the actuary recommended a contribution of $40.7 million for the fiscal year 2008 budget. The base appropriation was further increased from $29.4 million to $32.5 million. One-time excess of receipts of $7.0 million and an estimated $1.2 million of Medicare D reimbursement funds were also appropriated to fully fund the actuary's recommended contribution in fiscal year 2008.

Based on the STRS actuarial report released in October 2007, the ARCs for the STRS are $41.2 million and $43.2 million for the fiscal years ending June 30, 2008 and June 30, 2009, respectively. The fiscal year 2008 budget appropriates $40.7 million for the STRS ARC based on the prior ARC estimated in the October 2006 STRS actuarial report, as discussed above. Based on the October 2007 VSRS actuarial report, the ARCs for the VSRS are $24.2 million and $25.3 million for the fiscal years ending June 30, 2008 and June 30, 2009, respectively. The fiscal year 2008 budget appropriates $25.1 million for the VSRS ARC based on the October 2006 VSRS actuarial report.

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. Over 800 eligible employees had a one-time, irrevocable option of transferring the actuarial value of their accrued benefit from the defined benefit to the defined contribution plan on January 1, 1999. The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. 374 exempt employees elected to transfer to the defined contribution plan, representing approximately 45% of the eligible population. Assets totaling $21 million were transferred from the defined benefit plan to the defined contribution plan as a result of the election on January 4, 1999. As the attendant decrease in liabilities in the defined benefit plan was equal to $21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or the defined contribution plan. As of June 30, 2007, the Vermont State Defined Contribution Plan's net assets totaled $41,402,234 and there were 589 participants.

The Legislature granted authority to the Vermont Municipal Employees' Retirement System's Board of Trustees to establish a defined contribution plan that may be offered in lieu of the defined benefit plan currently available under the Municipal Retirement System. The plan was made available to new members effective July 1, 2000. The defined contribution plan may be offered by municipal employers to one or more groups of eligible employees. Once offered by the employer, each eligible employee is required to make an election to participate.

Sixty-one municipalities chose to offer the defined contribution plan to their employees in 2000. Eighty-one employees elected the defined contribution plan and transferred the actuarial value of their accrued benefits totaling $3.3 million on July 1, 2001. Employers that did not offer the defined contribution plan to their employees by December 31, 1999 have an opportunity to do so by December 31 of any subsequent year, with transfer effective the following July 1. An additional 20 municipalities chose to offer the plan prior to December 31 of 2000 and

$656,125 was transferred on behalf of 262 employees who chose the plan. For fiscal year ending June 30, 2007, plan participants and the municipalities each contributed $571,335 and $571,438, respectively, while members transferred $44,432 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2007, the Municipal Employees' Defined Contribution Plan's net assets totaled $13,163,965 and there were 560 participants.

Other Post-Employment Benefits

Recently adopted rules (GASB Statement Nos. 43 and 45) by the Governmental Accounting Standards Board covering non-pension post-employment benefits, primarily health insurance, present financial and disclosure considerations for the State of Vermont beginning in fiscal year 2008. For the first time, public sector entities will be expected to report the future costs of these benefits on their balance sheets. The standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is more conservative, and therefore will result in larger yearly cost and liability accruals, if they are funded on a pay-as-you-go basis—as they presently are in Vermont and in many other jurisdictions—and not pre-funded in the same manner as traditional pension benefits.

The State's independent actuary has prepared draft valuations, subject to review by the Board of Trustees of the applicable systems, of the health care benefit liabilities for VSRS and STRS as of June 30, 2007. This is the third annual Other Post-Employment Benefit (OPEB) valuation for each system. The Vermont Municipal Employees' Retirement System (VMERS), a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated state health care benefit or liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

Both the VSRS and STRS reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. For VSRS, assuming no prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2007 is $606.5 million with an unfunded actuarial liability of $604.3 million. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an ARC commencing at $47.3 million for fiscal year 2008 and projected to increase to $197.7 million in fiscal year 2037. If, however, prefunding is assumed, the actuarial accrued liability is reduced to $316.8 million with an unfunded actuarial liability of $314.6 million and the ARC is calculated to commence at $27.1 million for fiscal year 2008, projected to increase to $112.7 million for fiscal year 2037. Upon retirement of the unfunded accrued liability, the projected normal cost in fiscal year 2038 on a prefunding basis is $50.2 million. The fiscal year 2008 State budget funds the current year expected benefit payments of approximately $16.4 million, which is less than the ARC applicable under either funding basis.

For STRS, assuming no prefunding, the actuarial accrued liability and the unfunded actuarial liability for OPEB obligations earned through June 30, 2007 is $820.2 million. This is a reduction compared to the previous year due to a change in assumption for the percentage of current active employees electing retiree medical coverage. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an ARC commencing at $60.2 million for fiscal year 2008 and projected to increase to $270.1 million in fiscal year 2037. If, however, prefunding is assumed, the actuarial accrued liability and the unfunded actuarial liability is reduced to $373.6 million and the ARC is calculated to commence at $29.8 million for fiscal year 2008, projected to increase to $129.2 million for fiscal year 2037. Upon retirement of the unfunded accrued liability, the projected normal cost in fiscal year 2038 on a prefunding basis is $54.8 million. The fiscal year 2008 State budget funds the current year expected benefit payments of approximately $14.8 million, which is less than the ARC applicable under either funding basis.

In making these calculations, the independent actuarial firm utilized employee data and premium information provided by the State and assumed annual medical care inflation growth initially at 7.0% for fiscal year 2008, declining to 6% for 2009, and 5% thereafter. The valuations also assumed continuation of current benefit levels and current retiree contribution requirements. The actuarial cost method used is projected unit credit. Detailed reports with the actuarial assumptions are available through the State Treasurer's Office.

The difference between the value of prefunded and pay-as-you-go OPEB liabilities is due to the discount rate used in the calculation. In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension, liquid investments over the long term, estimated at 3.75%. In the event of prefunding, the discount rate would increase to a return on long-term investments consistent with the respective pension funds, estimated at 8.25% for both systems. In order to treat its OPEB liabilities as prefunded, the State would have to enact legislation providing for the deposit of annual contributions in an irrevocable trust, in the manner similar to the pension funds.

The State has not yet made any decision on when or how it will fund the full ARC although it has taken several steps. In fiscal year 2007, an irrevocable trust was established by statute to be administered by the State Treasurer for the purpose of accumulating and providing reserves to fund retiree postemployment benefits for members of the VSRS, excluding pensions and benefits otherwise appropriated by statute. All funds remitted to the State as a subsidy on behalf of the members of the VSRS for employer-sponsored qualified prescription drug plans pursuant to the Medicare Prescription Drug Improvement and Modernization Act of 2003 will be deposited into this fund, as well as any appropriations by the Legislature to fund retiree postemployment benefits for members of the VSRS. As of June 30, 2007, the fund had assets of $2.2 million. Per existing statute, all Medicare D subsidy payments for the VSRS will continue to be deposited into this fund in fiscal year 2008 and the subsequent years. The State Treasurer, as authorized by the Legislature, contracted with an independent expert to review, evaluate, and make recommendations on pension and retiree health plan provisions and design, as well as benefit and contribution levels, for the Vermont state employees' and teachers' systems, including health care. This report has been submitted to the Legislature for consideration. A copy of the report may be found at http://www.vermonttreasurer.gov/documents/misc/BuckPensionBenefitsStudy.pdf.

LABOR RELATIONS

As of June 30, 2007, there were 8,391 employees in the executive branch of State government. This figure includes both classified and exempt positions. Seasonal work force needs affect the number of temporary employees. Therefore, they are not included in the number of employees.

The State's classified employees in certified bargaining units are represented by the Vermont State Employees' Association (VSEA). The State's current contract with VSEA, which began on July 1, 2007 and expires on June 30, 2008, provides cost of living adjustments for most of the State's classified employees of 2.25% effective July 8, 2007 in addition to traditional longevity-based salary increases (steps), which represent an average cost of 1.7% per year. The contract also contains a livable wage provision that provides additional quarterly lump sum cash payments to those employees whose annualized salaries are less than $18,720. Each quarterly payment is equal to one-fourth of the difference between the employees' annualized base salary at the start of the calendar quarter and $18,720.

LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. See "CERTIFICATES OF STATE OFFICERS – Absence of Litigation" for a discussion of the Attorney General's certificate regarding litigation affecting the Bonds.

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State of Vermont ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other State of Vermont tax consequences arising with respect to the Bonds. Bond Counsel also has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than the State of Vermont. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and State of Vermont personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Prospective Beneficial Owners should also be aware that the statutory framework on which the exemption from State of Vermont personal income taxes and State of Vermont corporate income taxes described above is similar to that at issue in Department of Revenue of Kentucky v. Davis, 197 S.W.3d 557 (Ky. App. 2006), cert. granted, 75 U.S.L.W. 3621 (May 21, 2007), in which the Kentucky court held that a statute that provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the commerce clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent State of Vermont judicial decisions, or statutory enactments intended to ensure the constitutionality of Vermont tax law could, among other alternatives, adversely affect the State of Vermont tax exemption of outstanding municipal bonds, including the Bonds, to the extent constitutionally permissible, or result in the exemption from State of Vermont income tax of interest on non-Vermont municipal bonds, either of which could adversely affect the market price of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

FINANCIAL ADVISOR

Government Finance Associates, Inc., New York, New York, serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, Government Finance Associates, Inc. has read and participated in the preparation of certain portions of this Official Statement. Government Finance Associates, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments.

COMPETITIVE SALE OF BONDS

After competitive bidding on November 14, 2007, the Bonds were awarded to Merrill Lynch & Co. (the "Underwriter"). The Underwriter has supplied the information as to the public offering yield or prices of the Bonds set forth on the cover hereof. The Underwriter has informed the State that if all of the Bonds are resold to the public at those yields or prices, they anticipate the total Underwriter's compensation to be $69,300.00. The Underwriter may change the public offering yields or prices from time to time.

RATINGS

The State has received ratings of "AA+," "Aaa" and "AA+" from Fitch Inc., Moody's Investors Service and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. (each, a "Rating Agency"), respectively on the Bonds. The State furnished each Rating Agency with certain information and materials concerning the Bonds and the State. Generally, each Rating Agency bases its rating on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that such rating will continue for any given period of time or that such rating may not be suspended, lowered or withdrawn entirely by such Rating Agency if, in its judgment, circumstances so warrant. Any explanation of the significance of the ratings may be obtained only from each respective Rating Agency.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax-exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of opinion is attached hereto as Appendix C (subject to the matters discussed under "TAX EXEMPTION" above).

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish certificates of the Treasurer and Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or to the best of each officer's knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or the levy or collection or enforcement of any taxes to pay principal of or interest on the Bonds.

The Governor's and Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate, dated the date of delivery of the Bonds, signed by the Governor and the Treasurer of the State, certifying that to the best of their knowledge this Official Statement, as of the date of this Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the State with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRs"). The notices of material events will be filed by the State with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in Appendix B hereto, "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the purchasers in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Pursuant to existing continuing disclosure agreements, the State has filed the annual information required. For fiscal year 2002, the State satisfied its covenant with respect to continuing disclosure by sending notice to the NRMSIRs that it was unable to provide the fiscal year 2002 annual report by June 30, 2003. The State's fiscal year 2002 annual report was sent to the NRMSIRs on January 6, 2004. For fiscal year 2003, the State satisfied its covenant with respect to continuing disclosure by sending notice to the NRMSIRs that it was unable to provide the fiscal year 2003 annual report by June 30, 2004. The State's fiscal year 2003 annual report was sent to the NRMSIRs on December 28, 2004. The State's fiscal year 2004 annual report was sent to the NRMSIRs on April 12, 2005. The State's fiscal year 2005 annual report was sent to the NRMSIRs on January 19, 2006. The State's fiscal year 2006 annual report was sent to the NRMSIRs on February 21, 2007.

ADDITIONAL INFORMATION

The Commissioner of Finance and Management reports on the financial conditions for the State including its operations and balances, receipts, and disbursements of the various funds in the Annual Financial Report. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. George B. "Jeb" Spaulding, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, telephone: (802) 828-2301 or from Mr. J. Chester Johnson, Chairman, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022, Telephone: (212) 521-4090.

It is the current policy of the State to provide copies of the General Obligation Bond Law, prior Official Statements of the State and the State's annual financial reports upon request. The State reserves the right at any time to change this policy to comply with law or for any other reason.

Several discussions throughout this Official Statement are based, in part, on projections and forward looking statements related to fiscal year 2008 and subsequent years. No assurance can be given that the budget, the revenue and expenditure estimates or the forward-looking statements discussed will be realized. The accuracy of the budget, the revenue and expenditure estimates and forward statements related to fiscal years 2008 and 2009 cannot be verified until after the close of the fiscal year. In addition the accuracy of all projections and forward statements is dependent on a number of factors including (1) general economic factors that affect local source revenues such as individual income taxes and sales and use taxes, (2) general factors that affect the United States economy and the State economy, and (3) the accuracy of data relating to employment, inflation and income growth in the United States and in the State.

Any statements in the Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose.

By: /s/ James H. Douglas
Governor

By: /s/ George B. "Jeb" Spaulding
Treasurer

Dated: November 14, 2007

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APPENDIX A

STATE OF VERMONT'S ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The information in this Appendix A includes pages 12 through 116 of the State of Vermont's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2006. The entire CAFR is available from Finance & Management's website at http://finance.state.vt.us/Fin%20Publications/2006_cafr.pdf.

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RANDOLPH D. BROCK
STATE AUDITOR

STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

Independent Auditor's Report

Speaker of the House of Representatives Gaye Symington
President Pro-Tempore-elect of the Senate Peter Shumlin
Governor James H. Douglas
State House
Montpelier, Vermont

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont, as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Vermont's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities and funds that aggregate the following percentages of total assets and revenues:

Opinion Unit	Percentage of Total Assets	Percentage of Total Revenues
Business-Type Activities	**2.8%**	**50.8%**
Aggregate Discretely Presented Component Units	**100%**	**100%**
Aggregate Remaining Funds	**4.2%**	**1.2%**

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it is related to the amounts included for those entities and funds, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The

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Auditor: (802) 828-2281 • Toll-Free (in VT only): 1-877-290-1400 • Fax: (802) 828-2198
email: auditor@sao.state.vt.us • website: www.state.vt.us/sao

financial statements of the Special Environmental Revolving Fund (blended into the Federal Revenue Fund), the Vermont State Infrastructure Bank (blended into the Transportation Fund) and the Vermont Sustainable Jobs Fund (a discretely presented component unit) were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2006 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and required supplementary information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by U. S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Vermont's basic financial statements. The introduction section, supplementary information, and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introduction and statistical sections have not been subjected to the auditing procedures applied in the audit by us and the other auditors of the basic financial statements and, accordingly, we express no opinion on them.

Randolph D. Brock

State Auditor
December 31, 2006

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2006. This MD&A section is intended to serve as an introduction to the State's basic financial statements. It is designed to assist the reader in focusing on significant financial issues, provide an easily readable overview of the State's financial activities, identify any material changes from the original budget, and highlight financial issues that occurred within Vermont during fiscal year 2006. Please read this in conjunction with the transmittal letter found at the front of this report and the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The assets of the State's primary government exceeded its liabilities at June 30, 2006 by $1.376 billion (net assets).

Total net assets for the primary government increased by $45.7 million. Governmental activities' net assets increased $64.1 million while business activities' net assets decreased by $18.5 million.

The State's governmental funds report combined ending fund balances of $429.1 million. Of this amount, $214.2 million is available for spending at the State's discretion (unreserved - undesignated fund balance).

During the fiscal year, the fund balance of the State's General Fund decreased $2.2 million to $161.5 million. Of this amount $93.1 million is reserved for specific purposes.

The State's debt outstanding for General Obligation Bonds decreased $2.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this Comprehensive Annual Financial Report (CAFR) contains the Independent auditor's report, this discussion and analysis section, the basic financial statements (BFS) with required supplementary information (RSI), other supplementary information, and a statistical section. Additional information regarding the above sections may be found below as well as in the notes to the financial statements.

Basic Financial Statements

Vermont's basic financial statements (BFS) consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component units' financial statements, and 4) notes to the financial statements. The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this analysis. Notes to the financial statements provide explanations and/or additional detail for all of the above type financial statements and are considered an integral part of the financial statements.

1) Government-Wide Financial Statements

Vermont's government-wide financial statements which follow this MD&A section are designed to present a broad view of the State's operations and financial position in a manner similar to a private-sector business. All of the State's activities except its fiduciary funds' activities are reported in the government-wide statements. Fiduciary activities are not included because the resources of these funds are not available to support the State's own programs.

The government-wide statements contain both short-term and long-term information about the State's financial position and assist in assessing the State's economic condition at the end of each fiscal year. The State prepares these statements using the "flow of economic resources" measurement focus and the accrual basis of accounting. This basically means that the methods utilized to prepare these statements are similar to those used by most private sector businesses in preparing their financial statements. They take into account all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting or possibly affecting the financial condition of the State, even if cash involved has not been received or paid. The government-wide financial statements present two statements:

> The *Statement of Net Assets* presents both the primary governments' and its component units' assets and liabilities, with the difference between the assets and liabilities reported as "net assets". Over time, increases or decreases in the primary government's net assets may serve as an indicator as to whether the financial position of the State is improving or deteriorating.
>
> The *Statement of Activities* presents the reported year's financial activity and hence, the reason(s) for the changes in net assets included on the Statement of Net Assets. All changes in financial activities are recognized as soon as the underlying event(s) giving rise to the changes occur, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not result in cash flows until future fiscal periods. This statement also presents the relationship between the State's major expenditure functions and the associated sources of program revenues associated with each expenditure function.

Both of the above financial statements segregate Vermont's financial activity into the following three different categories. The governmental activities and business-type activities are combined to report on what is termed *primary government activities* which are separate and distinct from the *component units activities* of the discretely presented component units. For more information regarding discretely presented component units, please see Note 1 to the financial statements.

Primary Government Activities
Governmental Activities – The financial activities reported in this section generally represent those services (functions) normally performed by a government entity. These activities include public education, general government, public health services, legal and judiciary services, natural resources, public safety, regulatory services, social services, and public transportation. Taxes, grants, and intergovernmental revenues are the main sources of funding for these activities.

Business-Type Activities – These business-type activities of the State include the operations of Vermont's enterprise activities. For financial reporting purposes, these activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. Activities categorized as major include the Unemployment Compensation Trust Fund program, liquor control, and the State lottery commission. Activities reported as non-major include the federal surplus property program, publishing Vermont Life magazine, making equipment loans to municipalities, and several other activities. Both major and non-major activities normally recover all or a portion of their costs through user fees and charges to the external consumers of their goods and services, much like a private business.

Component Units' Activities
Discretely Presented Component Units – These are legally separate (incorporated) entities for which the elected officials of the primary government have financial accountability. The State's discretely presented component units are presented in the aggregate in the government-wide statements. This aggregate total consists of three major and eight non-major component units. This categorization is determined by the relative size of the entities' assets, liabilities, revenues and expenses in relation to the total of all component units. Additional information or financial statements for each of these individual component units can be obtained from their respective administrative offices. Addresses and additional information about the State's component units are presented in Note 1 to the financial statements.

2) Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Similar to other state and local governments, Vermont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus and report on the State's activities in more detail than the government-wide statements. All of the funds of the State have been divided into three categories for reporting purposes: governmental, proprietary, and fiduciary. In turn, the governmental and proprietary funds are divided into major and non-major categories as required by the Governmental Accounting Standards Board. For the governmental and proprietary funds, the major funds are reported in individual columns in the fund financial statements while the non-major funds are presented in a consolidated column in the fund financial statements. Combining schedules or statements in the supplementary information section present detailed non-major fund activity. Fiduciary funds are reported by fiduciary type (pension trust, private purpose trusts and agency funds) with combining schedules or statements for the individual pension and agency funds presented in the supplementary information section. It is important to note that these fund categories use different accounting methods and should be interpreted differently as described below.

The Three Categories of Funds are:
Governmental Funds
Most of the basic services provided by the State are accounted for in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as the balances of resources available at the end of the fiscal year. This approach uses the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the time period focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Schedules reconciling the governmental funds' Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances to their respective government-wide statements are provided on the pages immediately following each governmental fund financial statement to facilitate this comparison.

The State reports eighteen governmental funds of which six are classified as "major" governmental funds. These major funds are the General Fund, Transportation Fund, Education Fund, Special Fund, Federal Revenue Fund and Global Commitment Fund. Each major fund is presented in a separate column in the Governmental Funds' *Balance Sheet* and in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*. The "non-major" governmental funds include the Fish and Wildlife Fund, two capital projects funds, and nine permanent funds and are presented in one consolidated column in the governmental fund statements. Combining and individual non-major governmental fund statements are reported in the supplementary information section of this report.

The governmental funds' financial statements immediately follow the government-wide financial statements.

Proprietary Funds
This category of funds includes enterprise funds (business-type) and internal service funds. These funds report activities that operate much like those of commercial enterprises. These funds' financial reports include a *Statement of Net Assets;* a *Statement of Revenues, Expenses and Changes in Net Assets*; and a *Statement of Cash Flows.*

Enterprise funds provide the same type of information as the business-type activities section in the government-wide financial statements, only in more detail. Like the government-wide financial statements, enterprise fund financial statements use the accrual basis of accounting. Enterprise funds account for services provided to the general public, government, and non-State government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.

The State reports eight enterprise funds of which three are reported as major funds in separate columns on the proprietary fund statements. These three are the Unemployment Compensation Fund, the Liquor Control Fund, and the Vermont Lottery Commission. The other five enterprise funds are reported as "non-major funds" and are consolidated into one column on the proprietary fund statements.

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. Because these funds' activities primarily benefit governmental activities, they have been combined with the governmental activities in the government-wide statements.

The State reports twenty-two internal service funds which are reported in one consolidated column entitled "Governmental Activities – Internal Service Funds Total" on the Proprietary Funds Statement of Net Assets; Statement of Revenues, Expenses, and Changes In Net Assets; and Statement of Cash Flows.

The proprietary funds' financial statements immediately follow the governmental fund financial statements. Combining non-major enterprise and combining internal service fund statements may be found in the supplementary information section.

Fiduciary Funds
These funds are used to account for resources held by the State for the benefit of parties outside of State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. They use the accrual basis of accounting.

The State's fiduciary funds are divided into the following three basic categories: Pension Trust Funds (six separate retirement plans for employees); Private Purpose Trust Fund (which reports only the Unclaimed Property Fund); and Agency Funds (eleven agency funds which account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals). These funds financial reports include a *Statement of Fiduciary Net Assets;* and a *Statement of Changes in Fiduciary Net Assets.*

The fiduciary funds financial statements can be found immediately following the proprietary funds financial statements. Individual pension trust funds and agency funds financial statements are reported in the supplementary information section of this report.

3) Discretely Presented Component Units' Financial Statements
As mentioned previously, the State has included the net assets and activities of three major component units in individual columns and eight non-major component units in a single column on the statements. The component units' financial statements can be found immediately after the fiduciary funds. Combining individual non-major component units' financial statements can be found in the supplementary information of this report.

4) Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

Required Supplementary Information Other Than MD&A
The basic financial statements are followed by a section of required supplementary information. This section includes:

Schedules for the General Fund and each of the five major Special Revenue Funds comparing their original budgeted amounts; final budgeted amounts; actual inflows, outflows, and balances stated on the budgetary basis; and variances between the final budgeted amounts and actual amounts presented on a budgetary basis. See Note 1, Section E for additional information regarding the budgetary process, including the budgetary basis.

Notes to Required Supplementary Information include a schedule reconciling the statutory fund balance presented on a budgetary basis to the fund balance prepared on a modified accrual basis as presented in the governmental fund financial statements for each major governmental fund.

Supplementary Information
Combining Financial Statements
The combining fund financial statements referred to earlier in connection with non-major funds and non-major component units are presented following the Required Supplementary Information. The total columns of these combining financial statements carry to the applicable fund financial statement. These combining statements include the following:

Non-major governmental funds
Non-major proprietary (enterprise) funds
Internal service funds
Fiduciary funds including individual pension trust funds and individual agency funds
Non-major component units

Statistical Section
A statistical section containing selected financial, debt capacity, operating, economic and demographic information is presented immediately following the combining financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
The State's (governmental and business-type activities) combined net assets total $1.376 billion at the end of 2006, as shown in Table 1. Over 78 percent of these combined net assets consist of the State's investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) less any related debt still outstanding that was used to acquire those assets. This $1.080 billion in capital assets represent resources used to provide services to citizens, and therefore are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the primary government's net assets (27.4 percent) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets. The remaining balance of unrestricted net assets is a deficit of $81.7 million.

The governmental activities' negative unrestricted net assets balance is mainly the result of two actions: 1) debt issued by the State for municipal, non-profit or component unit capital purposes that does not result in a governmental activities' capital asset and 2) the statutorily mandated restricting of net assets for the budget stabilization reserves.

The business type-activities' positive unrestricted net asset balance may be used to meet the State's ongoing obligation to its citizens and creditors.

At the end of fiscal year 2006, the State reported positive total net asset balances in its governmental activities, business-type activities, and discretely presented component units.

The following primary government condensed financial statement information is derived from the State's government-wide June 30, 2006 and 2005 financial statements. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

TABLE 1
State of Vermont's Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current assets	$ 665.6	$ 669.1	$ 222.0	$ 241.8	$ 887.6	$ 910.9
Other assets	311.1	237.8	5.0	5.4	316.1	243.2
Capital assets	1,242.8	1,209.8	0.4	0.5	1,243.2	1,210.3
Total assets	**2,219.5**	**2,116.7**	**227.4**	**247.6**	**2,446.9**	**2,364.3**
Long-term liabilities	668.1	639.8	4.1	4.2	672.2	644.0
Other liabilities	389.5	379.1	9.5	11.2	399.1	390.4
Total liabilities	**1,057.6**	**1,019.0**	**13.6**	**15.4**	**1,071.3**	**1,034.4**
Net assets:						
Invested in capital assets, net of related debt	1,080.1	1,055.5	0.4	0.5	1,080.5	1,055.9
Restricted	167.5	111.9	209.3	227.9	376.8	339.8
Unrestricted (deficit)	(85.7)	(69.6)	4.0	3.8	(81.7)	(65.8)
Total net assets	**$ 1,161.9**	**$ 1,097.8**	**$ 213.7**	**$ 232.2**	**$ 1,375.6**	**$ 1,329.9**

Totals may not add due to rounding.

Changes in Net Assets

Vermont's primary government's change in net assets for fiscal year 2006 was an increase of $45.7 million as shown in Table 2. This is the amount of change associated with operations for the year. Governmental activities had an increase in net assets along with business-type activities. The $229.7 million increase in revenues was largely due to a $76.9 million increase in program revenues and a $160.3 million increase in tax revenues, led by a $81.3 million increase in statewide education tax. This increase was offset by an increase of $215.8 million in expenses, highlighted by a $105 million increase in education expenses.

In 2006, governmental activities' revenues exceeded expenses by $40.6 million and received transfers of $23.5 million from business activities, resulting in the 5.84 percent increase in net assets. Business-type activities had an overall decrease in net assets of 7.96 percent, resulting from an operating surplus of $5.1 million offset by transfers out of $23.5 million to governmental activities, primarily from the Lottery ($23 million) to support education.

The following condensed table presents a comparison of activity for the fiscal years ended June 30, 2006 and 2005 and contains primary government data only.

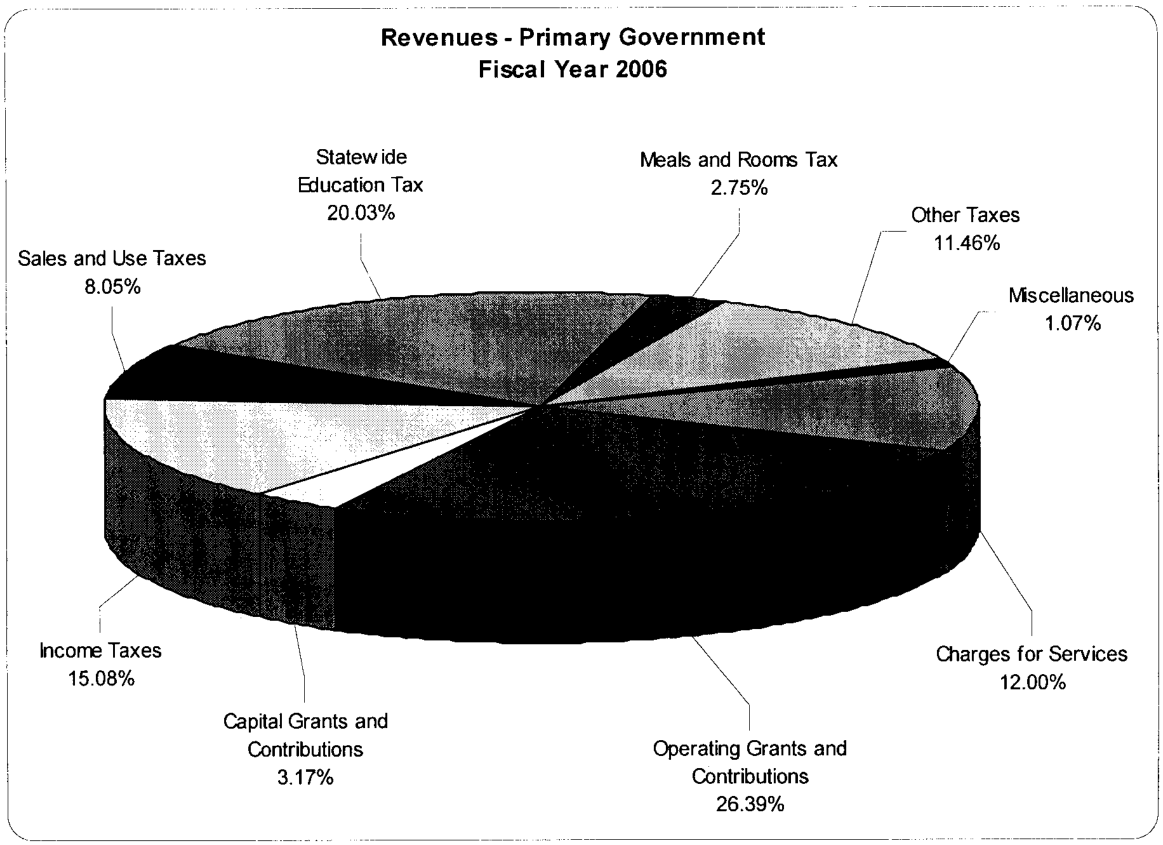
TABLE 2
State of Vermont's Changes in Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005[1]	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	$ 281.2	$ 256.3	$ 206.4	$ 192.0	$ 487.7	$ 448.3
Operating grants and contributions	1,072.0	1,032.6	-	-	1,072.0	1,032.6
Capital grants and contributions	128.7	130.6	-	-	128.7	130.6
General revenues:						
Income taxes	612.6	568.1	-	-	612.6	568.1
Sales and use taxes	327.1	312.4	-	-	327.1	312.4
Statewide education tax	813.6	732.3	-	-	813.6	732.3
Meals and rooms tax	111.6	112.0	-	-	111.6	112.0
Other taxes	465.8	445.6	-	-	465.8	445.6
Miscellaneous	33.8	38.7	9.8	12.1	43.6	50.8
Total revenues	**3,846.2**	**3,628.7**	**216.3**	**204.1**	**4,062.6**	**3,832.8**
Expenses						
General government	110.1	120.8	-	-	110.1	120.8
Protection to persons and property	233.2	217.6	-	-	233.2	217.6
Human services	1,445.9	1,392.5	-	-	1,445.9	1,392.5
Employment and training	21.2	20.6	-	-	21.2	20.6
General education	1,555.7	1,450.7	-	-	1,555.7	1,450.7
Natural resources	82.8	78.5	-	-	82.8	78.5
Commerce and community development	32.3	36.6	-	-	32.3	36.6
Transportation	301.6	269.1	-	-	301.6	269.1
Public service enterprises	2.0	1.6	-	-	2.0	1.6
Interest on long-term debt	21.0	19.3	-	-	21.0	19.3
Unemployment compensation	-	-	85.5	80.0	85.5	80.0
Lottery commission	-	-	82.3	71.7	82.3	71.7
Liquor control	-	-	40.5	38.2	40.5	38.2
Other business-type expenses	-	-	2.9	3.9	2.9	3.9
Total expenses	**3,805.6**	**3,607.3**	**211.2**	**193.8**	**4,016.9**	**3,801.1**
Increase in net assets before transfers	40.6	21.4	5.1	10.3	45.7	31.7
Transfers net in (out)	23.5	20.7	(23.5)	(20.7)	-	-
Change in net assets	**64.1**	**42.1**	**(18.5)**	**(10.4)**	**45.7**	**31.7**
Net assets, beginning of year	1,097.8	1,055.6	232.2	242.6	1,330.0	1,298.2
Net assets, end of year	**$ 1,161.9**	**$ 1,097.8**	**$ 213.7**	**$ 232.2**	**$1,375.6**	**$1,329.9**

[1] Some expenses have been reclassified for comparability to current year.

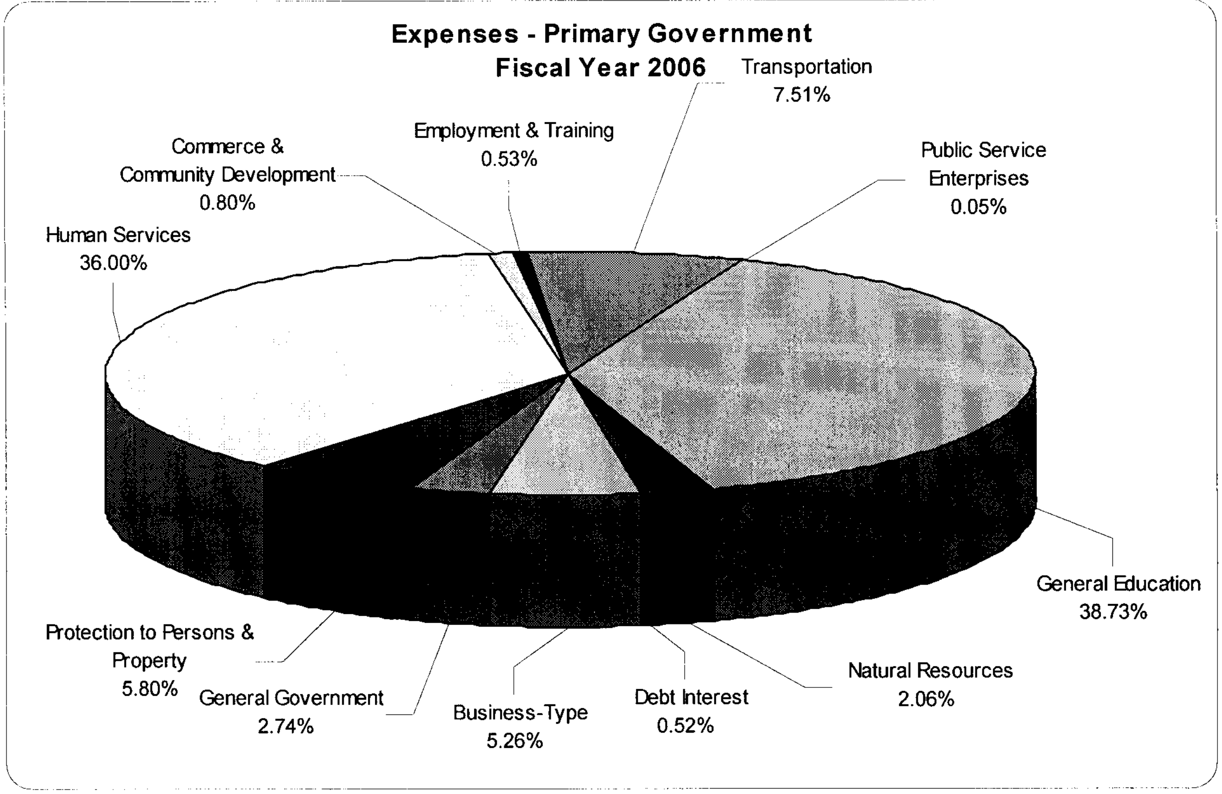
Totals may not add due to rounding.

The following graph illustrates the revenues of Vermont's primary for fiscal year 2006. Approximately 29.5 percent comes from other entities and government in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 35.1 percent of total revenues are generated by the statewide education and income taxes.



Percentages may not equal 100%, due to rounding.

The following graph illustrates the percentages of total primary government expenses. The largest portion of expenses is for general education (38.73 percent of total expenses) which provides for Vermont's elementary, secondary and higher education, as well as statewide education tax assistance in the form of income sensitive rebates to Vermont's citizens. These income sensitivity payments in fiscal year 2006 were $121.5 million. The second most significant expense is for human services (36 percent of total expenses) to provide for Vermont's citizens in need of assistance.



Percentages may not equal 100%, due to rounding.

FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State of Vermont uses fund accounting to account for its ongoing operations and to demonstrate compliance with finance-related legal requirements imposed by both legislative mandates as well as externally imposed restrictions.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2006, the unreserved, undesignated fund balance is 49.9 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at the State's discretion in the coming year. The remainder of this fund balance has been reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders, for debt service, for the human services caseload reserve, for budget stabilization purposes, or for a variety of other purposes.

At the end of fiscal year 2006, the State's governmental funds reported combined fund balances of $429.1 million, an increase of $48.5 million in comparison with the prior fiscal year. This increase is primarily attributable to increases personal and corporate income tax revenues.

The General Fund is the chief operating fund of the State. At the end of fiscal year 2006, the General Fund's total fund balance was $161.5 million and the unreserved portion of this fund balance was $68.3 million. Its remaining fund balance was made up of reservations totaling $93.1 million. These reservations were for the following categories: $51.8 million for budget stabilization, $8.5 million for the human services caseload reserve and $21.1 million for General Fund Surplus. During 2006, general fund expenditures and other uses exceeded total revenues and other sources by $2.2 million. The extent of this shortfall was somewhat mitigated by the State's fiscal restraint on spending aided by an unexpected increase in budgeted revenues.

The Special Fund's total fund balance at the end of fiscal 2006 was $97.9 million, an increase of 35.3 percent in comparison with 2005. The Special Fund's total fund balance is comprised of $76.9 million in unreserved, $4.8 million in reserved for encumbrances and $16.2 million reserved for State healthcare resources fund. Even with the creation of the new Global Commitment fund, Special Fund revenues increased $4.3 million and expenditures decreased $163.6 million compared to 2005 resulting in an increase in "excess of revenues over expenditures" of $167.9 million from last fiscal year. Net transfers in from other funds were $146.1 lower in fiscal year 2006 than in 2005.

The Global Commitment Fund was created in fiscal year 2006 (see 33 V.S.A. § 1901e) as a special revenue fund for Office of Vermont Health Access (OVHA) to administer Vermont's Global Commitment for Health waiver approved by the Centers for Medicare and Medicaid Services under Section 1115 of the Social Security Act. The Global Commitment Fund receives monthly "premium" payments as transfers from the General, Special and Federal Revenue Funds based on an actuarially determined rate range for these premium payments. The Global Commitment Fund's fund balance at the end of the fiscal year was a $19.9 million with expenditures of $591.2 million and a net transfer in from other funds of $611.1 million. See Note 1, Section E for more information regarding this fund.

Proprietary Funds
The State's *enterprise funds* provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund is the largest of the enterprise funds accounting for 98.0 percent of the $213.6 million total net assets reported by the enterprise funds. However, the Unemployment Compensation Trust Fund's total net assets decreased by $18.5 million from $227.9 million at June 30, 2005 to $209.3 million at June 30, 2006. This decrease was the result of unemployment benefit distributions exceeding unemployment tax assessments and other income.

The State's *internal service funds'* total net assets at June 30, 2006 were $21.2 million, a $4.3 million increase from June 30, 2005. This increase is primarily due to the Highway Garage Fund's total net assets increase of $3.5 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds
The State's fiduciary funds account for resources held for the benefit of parties outside the government. Net assets of the *pension trust funds* increased by 8 percent to $3.083 billion at June 30, 2006. For more information regarding the State's retirement plans, see Note 5 to the financial statements. The Unclaimed Property Fund's total assets balance at June 30, 2006 is $4.6 million with an escheat property claims liability estimated at $3.8 million, resulting in ending net assets of $659 thousand. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS
The General Fund ended fiscal year 2006 with a budget basis receipts exceeding the revenue estimates and budget basis expenditures less than budgeted which allowed the following to take place: the transfer of $6 million to the budget stabilization reserve thereby funding it to its' statutory maximum of $51.8 million (5 percent of the prior fiscal year's appropriations); an additional $24.7 million to be added to the final fiscal year 2006 appropriations per Act 215 Section 70 of the 2006 Legislative session, and an additional $10.2 million to be put in the General Fund Surplus reserve to be appropriated in fiscal year 2006. The $24.7 million of final fiscal year 2006 budget adjustments were largely used for one-time appropriations for various programs within State government. During the year, actual budgetary-based revenues exceeded the final budgetary estimates by $36.3 million, with actual tax revenue exceeding the final budgeted tax revenue estimate by $36.2 million. Expenditures were $57.1 million less than the final budgeted amount.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2006 was $1.243 billion, a total increase of 2.72 percent. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Many component unit, municipal and non-profit capital construction projects and acquisitions are financed by the State, but the assets are actually owned by these other organizations. Therefore, these capital assets are recorded on the financial statements of these owning organizations and are not listed on the books of the State. But the general obligation bonds issued by the State to finance these capital assets are reported as a liability of the State's governmental activities. At June 30, 2006, the State had $252.2 million of general obligation bonds outstanding related to capital assets of these other organizations.

Debt Administration
The State has no constitutional or other limit on its power to issue obligations or to incur debt besides borrowing only for public purposes. In 1990 the General Assembly created the Capital Debt Affordability Advisory Committee and made it responsible for overseeing the long-term capital planning for the State. The authorization and issuance of State debt including other related terms are statutory. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, in the months of May and June proceeding such fiscal year, or in subsequent fiscal years. Bonds are backed by the full faith and credit of the State, including the State's power to levy additional taxes to ensure repayment of the debt.

During fiscal year 2006, the State of Vermont's outstanding general obligation bond debt decreased by approximately $2.1 million. This decrease can be accounted for by the issuance of $45 million of general obligation bonds and accretion of $2.4 million in principal on the State's capital appreciation bonds offset by the redemption of $49.6 million. There was no defeasance in outstanding debt. Additional information on the State's long-term indebtedness is contained in Note 8 of the notes to the financial statements.

The State's bond ratings as of November 2006 are as follows: Moody's – Aa1; S&P – AA+; and Fitch – AA+.

ECONOMIC FACTORS

- Vermont General Fund tax revenues ended the fiscal year with surprising strengths due to revenue sources linked to high-income taxpayers: namely, personal income, corporate and estate taxes. Transportation revenues fell due to upward spiraling gasoline prices and lower than expected new vehicle sales. The Education Fund offset losses in motor vehicle purchase and use tax revenues with steady sales and use tax revenues and strong lottery receipts that benefited from several rich Powerball jackpots. The U.S. Treasury experienced a nearly identical and similarly unexpected, windfall in corporate and personal income tax receipts.

- The Vermont economy has continued to perform well relative to the region and nation. Vermont unemployment rates have consistently been below those of the U.S. and, at 3% in May of 2006, was the second lowest in the nation and the lowest in New England. However, the real estate market appreciation is forecasted to slow in the State. The U.S. economy is expected to match last's year's growth of about 3.5%, despite darkening economic signals in the second quarter of this year. With the steady increase of interest rates and soaring energy prices, housing and real estate markets are headed for a cool down.

- The Streamlined Sales Tax Agreement (SSTA) is a multi-state endeavor to simplify and streamline state sales and use taxes in order to facilitate the collection of such taxes from out-of-state-vendors, most notably mail order and internet retailers. Vermont's Streamlined Sales Tax statutes were expected to be "current law" effective October 1, 2006, however, technical implementation issues have delayed the start-up date, which is now effective on January 1, 2007. It should be noted that sales tax collection and payment by out-of-state vendors is still voluntary and will remain so until the U.S. Congress acts to allow states to require such tax collection.

- The implementation of the requirements of Governmental Accounting Standards Board Statement No. 48 for Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues is scheduled to begin in fiscal year 2008. This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as either a sale or a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent taxes, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements.

- The Governmental Accounting Standards Board Statement No. 45, which sets accounting and financial reporting standards by employers for postemployment benefits other than pensions, is effective beginning in fiscal year 2008. The term *other postemployment benefits* (OPEB) includes postemployment healthcare benefits and other types of postemployment benefits, such as life insurance. This new accounting standard will require the State to measure and disclose its liability for the OPEB and the status of its efforts to fund that liability in its fiscal year 2008 financial reports. The State's independent actuary will prepare valuations of the health care benefit liabilities for the Vermont State Retirement System (VSRS) and the State Teachers Retirement System (STRS). The actuarial valuation will determine the State's annual required contribution (ARC) necessary to fully fund the OPEB and compare it to the actual contribution paid. The difference is the Net OPEB Obligation to be reported in the Government-wide financial statements. The Vermont Municipal Employees' Retirement System, a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated state health care benefit or liability. Component units and authorities of the State will perform their own valuations as the State does not assume the risk or financial burden for their health care costs. The State has not yet made any decision on when or how it will fund the full ARC, although it has taken several steps.

- The Governmental Accounting Standards Board Statement No. 43 sets the financial reporting standards for postemployment benefit plans other than pension plans. The term *plans* refers to trust or other funds that accumulate assets to finance the OPEB, and benefits are paid as they come due. The requirements of this statement are effective beginning with fiscal year 2007. In fiscal year 2007, an irrevocable trust was established to be administered by the State Treasurer for the purpose of accumulating and providing reserves to fund retiree post-employment benefits for members of the VSRS, excluding pensions and benefits otherwise appropriated by statute. All funds remitted to the State as a subsidy on behalf of the members of the VSRS for employer-sponsored qualified prescription drug plans pursuant to the Medicare Prescription Drug Improvement and Modernization Act of 2003 will be deposited into this fund, as well as any appropriations by the legislature to fund retiree post-employment benefits other than pension for members of the VSRS.

These factors will likely have an impact on the State's financial position and budget in future fiscal years.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Vermont's finances for all of Vermont's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

State of Vermont
Department of Finance and Management
109 State Street, 5th Floor
Pavilion Building
Montpelier, Vermont 05609-0401

The State's component units issue their own separately issued financial statements. Their statements may be obtained by directly contacting them at the addresses found in Note 1 to the State's financial statements.

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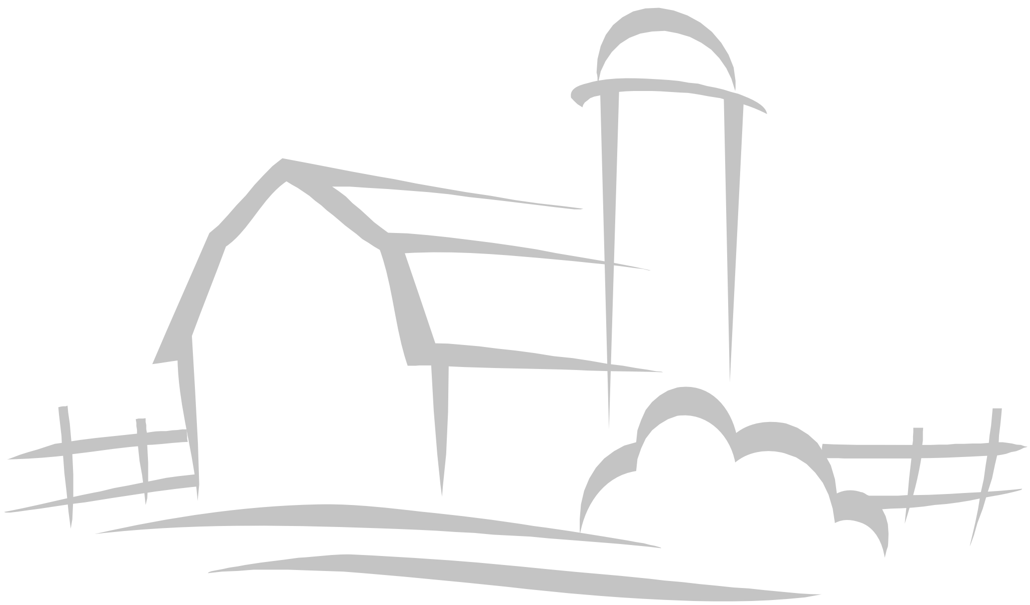

Vermont

BASIC FINANCIAL STATEMENTS

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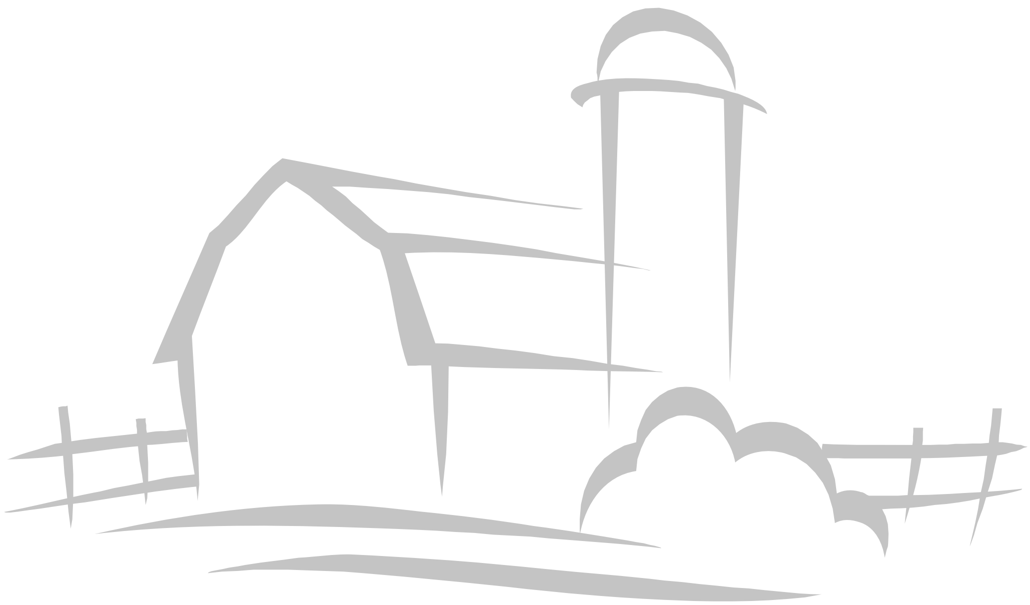

Vermont

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 335,213,647	$ 206,941,347	$ 542,154,994	$ 220,804,756
Taxes receivable (net)	104,914,582	8,634,074	113,548,656	-
Loans and notes receivable-current	6,600,080	936,370	7,536,450	165,149,869
Federal grants receivable (net)	137,856,940	144,597	138,001,537	14,358,083
Other receivables (net)	40,506,462	1,268,615	41,775,077	101,231,955
Investments	32,781,895	-	32,781,895	108,208,884
Inventories	2,626,247	5,155,949	7,782,196	226,434
Internal balances	1,277,092	(1,277,092)	-	-
Receivable from component units	2,762,812	-	2,762,812	-
Other current assets	1,060,286	159,731	1,220,017	11,730,262
Total current assets	665,600,043	221,963,591	887,563,634	621,710,243
Noncurrent assets:				
Cash and cash equivalents	-	951,284	951,284	26,162,688
Taxes receivable	94,136,827	-	94,136,827	-
Other receivables	21,040,588	68,188	21,108,776	-
Notes and loans receivable	153,906,897	972,596	154,879,493	2,098,019,099
Investments	32,721,470	3,028,976	35,750,446	427,503,033
Other noncurrent assets	9,277,985	-	9,277,985	28,412,831
Capital assets:				
Land	71,141,882	-	71,141,882	26,733,028
Construction in progress	317,331,633	-	317,331,633	78,815,579
Works of art	111,521	-	111,521	-
Capital assets being depreciated:				
Infrastructure	1,312,999,583	-	1,312,999,583	19,516,891
Property, plant and equipment	466,305,821	1,177,818	467,483,639	710,710,862
Less accumulated depreciation	(925,068,594)	(805,876)	(925,874,470)	(308,621,955)
Total capital assets, net of depreciation	1,242,821,846	371,942	1,243,193,788	527,154,405
Total noncurrent assets	1,553,905,613	5,392,986	1,559,298,599	3,107,252,056
Total assets	2,219,505,656	227,356,577	2,446,862,233	3,728,962,299

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	216,241,348	8,249,001	224,490,349	72,341,296
Income tax refunds payable	69,804,279	-	69,804,279	-
Payable to primary government	-	-	-	2,762,812
Accrued interest payable	7,794,963	-	7,794,963	5,543,426
Bonds, notes and leases payable	50,632,978	-	50,632,978	124,080,426
Compensated absences	20,345,922	216,526	20,562,448	-
Claims and judgments	10,314,803	-	10,314,803	-
Current portion of other long-term liabilities	1,273,601	-	1,273,601	679,359
Deferred revenue	13,134,448	1,059,195	14,193,643	24,786,153
Total current liabilities	389,542,342	9,524,722	399,067,064	230,193,472
Long-term liabilities:				
Lottery prize awards payable	-	4,003,964	4,003,964	-
Bonds, notes and leases payable	411,077,366	-	411,077,366	2,533,048,320
Compensated absences	10,127,222	120,038	10,247,260	-
Claims and judgments	23,174,203	-	23,174,203	-
Other long-term liabilities	223,686,197	-	223,686,197	44,337,312
Total long-term liabilities	668,064,988	4,124,002	672,188,990	2,577,385,632
Total liabilities	1,057,607,330	13,648,724	1,071,256,054	2,807,579,104
NET ASSETS				
Invested in capital assets, net of related debt	1,080,092,389	371,942	1,080,464,331	165,430,751
Restricted for:				
Unemployment compensation	-	209,321,179	209,321,179	-
Component unit net assets	-	-	-	516,629,098
Funds held in permanent investments:				
Expendable	22,096,858	-	22,096,858	-
Nonexpendable	4,673,830	-	4,673,830	-
Budget stabilization	87,176,077	-	87,176,077	-
Global commitment to health	31,446,757	-	31,446,757	-
Capital projects	22,096,316	-	22,096,316	-
Unrestricted	(85,683,901)	4,014,732	(81,669,169)	239,323,346
Total net assets	$ 1,161,898,326	$ 213,707,853	$ 1,375,606,179	$ 921,383,195

The accompanying notes are an integral part of these financial statements.

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activites:				
General government	$ 110,054,915	$ 46,748,777	$ 2,429,614	$ -
Protection to persons & property	233,163,452	97,700,416	43,494,691	-
Human services	1,445,867,889	33,474,522	833,215,997	-
Employment & training	21,154,243	516,896	18,175,215	-
General education	1,555,673,656	1,702,774	112,640,373	-
Natural resources	82,814,307	23,868,138	21,856,328	9,860,615
Commerce & community development	32,251,500	519,461	9,405,148	-
Transportation	301,625,876	74,645,995	30,824,625	118,797,298
Public service enterprises	1,994,246	2,050,307	-	-
Interest on long-term debt	21,046,866	-	-	-
Total governmental activites	3,805,646,950	281,227,286	1,072,041,991	128,657,913
Business-type activites:				
Vermont Lottery Commission	82,262,856	104,878,624	-	-
Liquor Control	40,511,410	41,480,297	-	-
Unemployment Compensation	85,483,130	57,428,204	-	-
Other	2,948,294	2,648,873	-	-
Total business-type activities	211,205,690	206,435,998	0	0
Total primary government	$ 4,016,852,640	$ 487,663,284	$ 1,072,041,991	128,657,913
Component Units:				
Vermont Student Assistance Corporation	$ 154,884,000	$ 84,537,000	$ 75,937,000	$ -
University of Vermont and State Agricultural College	453,127,000	241,837,000	196,167,000	8,234,000
Vermont State Colleges	135,102,593	83,360,619	50,145,122	1,664,675
Other	61,848,235	41,440,876	13,145,779	752,492
Total component units	$ 804,961,828	$ 451,175,495	$ 335,394,901	$ 10,651,167

General Revenues:
- Taxes:
  - Personal and corporate income
  - Sales and use
  - Meals and rooms
  - Puchase and use
  - Motor fuel
  - Statewide property
  - Other taxes
    - Total taxes
- Unrestricted investment earnings
- Tobacco litigation settlement
- Additions to non-expendable endowments
- Miscellaneous
- Transfers
  - Total general revenues and transfers

Changes in net assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activites	Total	
$ (60,876,524)	$ -	$ (60,876,524)	$ -
(91,968,345)	-	(91,968,345)	-
(579,177,370)	-	(579,177,370)	-
(2,462,132)	-	(2,462,132)	-
(1,441,330,509)	-	(1,441,330,509)	-
(27,229,226)	-	(27,229,226)	-
(22,326,891)	-	(22,326,891)	-
(77,357,958)	-	(77,357,958)	-
56,061	-	56,061	-
(21,046,866)	-	(21,046,866)	-
(2,323,719,760)	0	(2,323,719,760)	0
-	22,615,768	22,615,768	-
-	968,887	968,887	-
-	(28,054,926)	(28,054,926)	-
-	(299,421)	(299,421)	-
0	(4,769,692)	(4,769,692)	0
(2,323,719,760)	(4,769,692)	(2,328,489,452)	0
-	-	-	5,590,000
-	-	-	(6,889,000)
-	-	-	67,823
-	-	-	(6,509,088)
0	0	0	(7,740,265)
612,565,565	-	612,565,565	-
327,074,633	-	327,074,633	-
111,570,407	-	111,570,407	-
80,987,232	-	80,987,232	-
67,579,632	-	67,579,632	-
813,588,165	-	813,588,165	-
317,186,837	-	317,186,837	15,671,180
2,330,552,471	0	2,330,552,471	15,671,180
7,426,303	9,831,999	17,258,302	55,017,880
24,056,870	-	24,056,870	-
-	-	-	761,704
2,276,594	8,341	2,284,935	129,925
23,548,129	(23,548,129)	-	-
2,387,860,367	(13,707,789)	2,374,152,578	71,580,689
64,140,607	(18,477,481)	45,663,126	63,840,424
1,097,757,719	232,185,334	1,329,943,053	857,542,771
$ 1,161,898,326	$ 213,707,853	$ 1,375,606,179	$ 921,383,195

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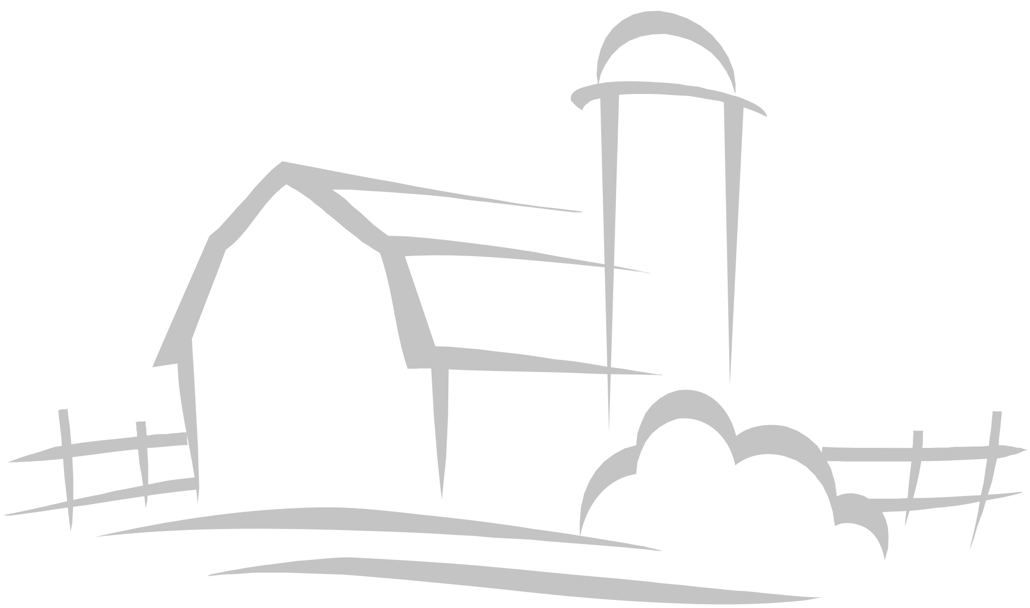
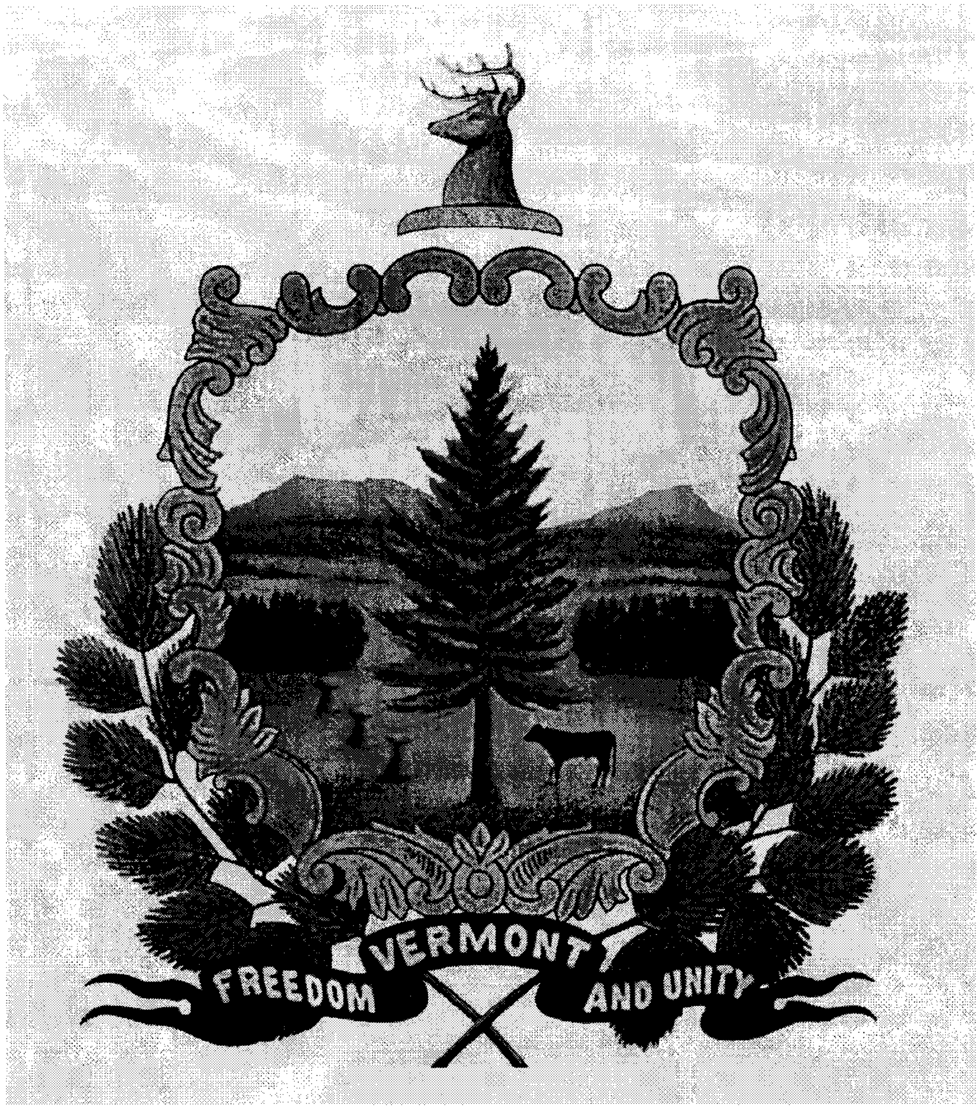


Vermont



GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Transportation Fund	Education Fund
ASSETS:			
Cash and cash equivalents	$ 100,436,494	$ 8,384,003	$ 29,556,505
Investments	-	-	-
Receivables:			
Taxes receivable (net)	165,686,443	9,355,267	13,532,303
Notes and loans receivable	5,915,196	1,881,476	-
Other receivables (net)	12,090,650	10,297,861	-
Intergovernmental receivable - federal government (net)	-	23,016,298	-
Due from other funds	399,544	395,020	-
Due from component units	2,710,982	-	-
Interfund receivable	31,463,007	-	-
Advances to other funds	323,700	-	-
Restricted cash	-	1,748,878	-
Total assets	**$ 319,026,016**	**$ 55,078,803**	**$ 43,088,808**
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 21,347,944	$ 17,802,931	$ 13,468,085
Accrued liabilities	13,182,890	5,435,788	-
Retainage payable	1,493,338	2,148,044	-
Due to other funds	12,927,311	49,400	11,623
Tax refunds payable	5,994,718	-	-
Deferred revenue	102,629,765	8,841,528	2,499,815
Total liabilities	**157,575,966**	**34,277,691**	**15,979,523**
FUND BALANCES:			
Reserved for:			
Encumbrances	4,773,632	1,021	-
Budget stabilization	51,807,658	11,043,987	24,324,432
Debt service	722,799	-	-
Advances and notes receivable	6,238,896	-	-
General fund surplus	21,135,375	-	-
State healthcare resources fund	-	-	-
Human caseload management	8,454,751	-	-
Endowments	-	-	-
Unreserved:			
Designated for specific purposes	-	-	-
Undesignated	68,316,939	9,756,104	2,784,853
Total fund balances	**161,450,050**	**20,801,112**	**27,109,285**
Total liabilities and fund balances	**$ 319,026,016**	**$ 55,078,803**	**$ 43,088,808**

The accompanying notes are an integral part of these financial statements.

Special Fund	Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Total Governmental Funds
$ 80,855,898	$ 14,220,467	$ 13,439,915	$ 37,200,623	$ 284,093,905
35,863,066	15,000,000	-	14,640,299	65,503,365
10,380,872	-	-	96,524	199,051,409
190,000	152,520,305	-	-	160,506,977
9,212,997	5,528,273	18,007,165	328,290	55,465,236
-	114,592,384	-	248,258	137,856,940
910,537	18,177	87,135,821	5,873	88,864,972
51,830	-	-	-	2,762,812
-	-	-	-	31,463,007
-	-	-	-	323,700
3,028,103	-	-	150,032	4,927,013
$ 140,493,303	**$ 301,879,606**	**$ 118,582,901**	**$ 52,669,899**	**$ 1,030,819,336**
$ 12,156,439	$ 31,071,562	$ 85,915,089	$ 2,646,742	$ 184,408,792
3,437,670	5,964,862	1,220,897	547,382	29,789,489
19,656	67,667	-	471,296	4,200,001
20,736,694	54,341,523	-	242	88,066,793
-	-	-	-	5,994,718
6,281,800	157,424,923	11,581,729	6,003	289,265,563
42,632,259	**248,870,537**	**98,717,715**	**3,671,665**	**601,725,356**
4,767,027	11,383,124	158	4,672,765	25,597,727
-	-	-	-	87,176,077
-	-	-	-	722,799
-	-	-	-	6,238,896
-	-	-	-	21,135,375
16,200,000	-	-	-	16,200,000
-	-	-	-	8,454,751
-	-	-	7,415,388	7,415,388
-	-	19,865,028	22,096,858	41,961,886
76,894,017	41,625,945	-	14,813,223	214,191,081
97,861,044	**53,009,069**	**19,865,186**	**48,998,234**	**429,093,980**
$ 140,493,303	**$ 301,879,606**	**$ 118,582,901**	**$ 52,669,899**	**$ 1,030,819,336**

State of Vermont
Reconciliation of Governmental Fund Balances
to the Statement of Net Assets - Governmental Activities
June 30, 2006

Total fund balances from previous page		$	**429,093,980**
Capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds. Those assets consist of:			
Land	71,115,726		
Construction in progress	315,273,256		
Depreciable capital assets and infrastructure, net of $891,922,586 of accumulated depreciation	825,606,059		
Capital assets, net of accumulated depreciation			1,211,995,041
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets			21,118,915
Amount presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting include:			
Long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred revenues in the governmental funds			277,659,712
Deferred charge for unamortized bond issuance costs			1,634,495
Deferred for unamoritized loss on sale of refunding bonds			7,643,490
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds. These liabilities include:			
Bonded and capital lease debt	(461,710,344)		
Accrued interest payable on bonds	(7,794,963)		
Compensated absences (net of internal service funds' liability)	(28,972,641)		
Tax refunds payable	(63,809,561)		
Other long-term liabilities	(224,959,798)		
Long-term liabilities			(787,247,307)
Net assets of governmental activities		$	**1,161,898,326**

The accompanying notes are an integral part of these financial statements.

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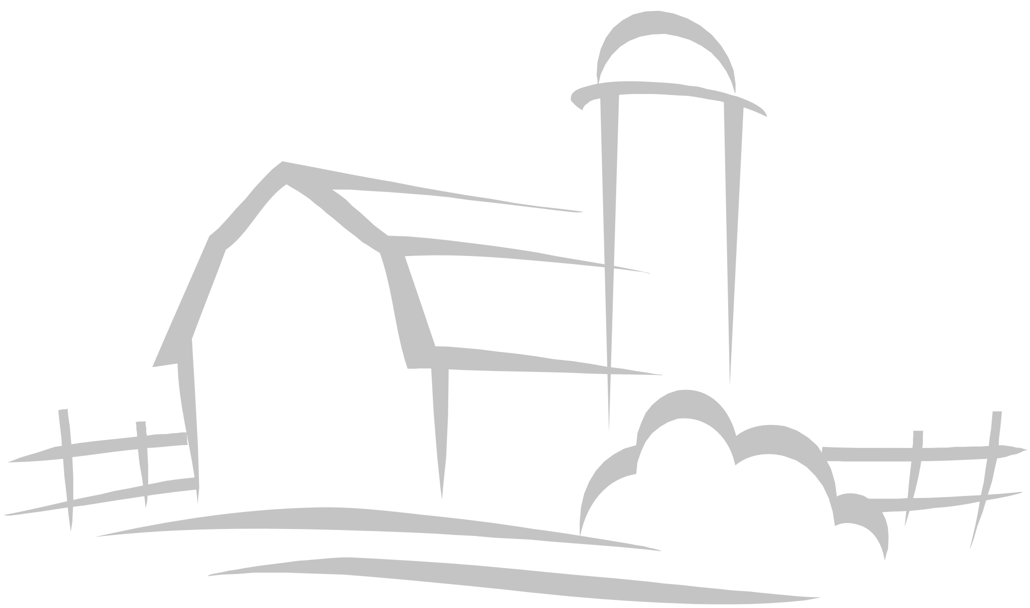

Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	Transportation Fund	Education Fund
REVENUES:			
Taxes:			
Personal income tax	$ 545,710,460	$ -	$ -
Corporate income tax	72,035,738	-	-
Sales and use tax	218,226,689	-	109,111,895
Meals and rooms	112,203,945	-	-
Motor fuel tax	-	64,606,330	-
Purchase and use tax	-	53,987,968	26,996,736
Statewide education tax	-	-	813,588,165
Other taxes	150,574,181	18,090,639	1,771,798
Earnings of departments:			
Fees	13,232,288	3,393,919	-
Rents and leases	-	862,137	-
Sales of services	1,281,045	138,465	-
Federal grants	-	149,621,924	-
Fines, forfeits and penalties	2,775,474	8,605,155	-
Investment income	3,348,484	112,769	163,165
Licenses:			
Business	2,798,837	512,887	-
Non-business	88,450	60,765,946	-
Special assessments	-	-	-
Other revenues	404,985	2,191,446	-
Total revenues	**1,122,680,576**	**362,889,585**	**951,631,759**
EXPENDITURES:			
General government	43,270,300	9,704,200	-
Protection to persons and property	81,476,870	27,791,598	-
Human services	272,632,793	1,641,462	-
Employment and training	1,415,582	-	-
General education	137,093,589	3,121,901	1,239,071,785
Natural resources	22,073,444	1,464,802	-
Commerce and community development	16,086,954	-	-
Transportation	-	321,235,007	-
Public service enterprises	-	-	-
Debt service	62,701,531	2,146,285	-
Total expenditures	**636,751,063**	**367,105,255**	**1,239,071,785**
Excess of revenues over (under) expenditures	**485,929,513**	**(4,215,670)**	**(287,440,026)**
Other Financing Sources (Uses):			
Proceeds from the sale of bonds	-	-	-
Premium on sale of bonds	744,195	-	-
Transfers in	10,300,052	11,171,844	289,475,912
Transfers out	(499,191,878)	(8,383,514)	(932,000)
Total other financing sources (uses)	**(488,147,631)**	**2,788,330**	**288,543,912**
Net change in fund balances	**(2,218,118)**	**(1,427,340)**	**1,103,886**
Fund balances, July 1	**163,668,168**	**22,228,452**	**26,005,399**
Fund balances, June 30	**$ 161,450,050**	**$ 20,801,112**	**$ 27,109,285**

The accompanying notes are an integral part of these financial statements.

Special Fund	Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 545,710,460
-	-	-	-	72,035,738
-	-	-	-	327,338,584
-	-	-	-	112,203,945
1,964,758	-	-	1,008,544	67,579,632
-	-	-	-	80,984,704
-	-	-	-	813,588,165
147,463,202	-	-	-	317,899,820
36,024,149	-	-	162,673	52,813,029
2,881,868	-	-	55,715	3,799,720
8,236,025	-	-	-	9,655,535
-	1,041,209,358	-	4,787,359	1,195,618,641
7,776,676	-	-	14,763	19,172,068
4,796,862	2,287,885	-	759,569	11,468,734
10,668,055	-	-	1,550	13,981,329
2,372,423	-	-	5,564,095	68,790,914
27,315,061	-	-	5,138	27,320,199
49,317,808	5,379,238	-	1,034,029	58,327,506
298,816,887	**1,048,876,481**	**0**	**13,393,435**	**3,798,288,723**
8,099,257	2,380,747	-	12,620,495	76,074,999
72,401,806	44,137,058	1,277,507	6,143,092	233,227,931
144,549,806	428,216,915	586,149,229	1,838,117	1,435,028,322
286,803	19,388,103	-	-	21,090,488
18,328,446	111,728,223	3,783,657	11,639,192	1,524,766,793
23,583,482	33,971,506	-	21,784,980	102,878,214
5,480,743	9,275,284	-	1,726,633	32,569,614
186,182	-	-	474,145	321,895,334
1,994,246	-	-	-	1,994,246
2,383,260	-	-	-	67,231,076
277,294,031	**649,097,836**	**591,210,393**	**56,226,654**	**3,816,757,017**
21,522,856	**399,778,645**	**(591,210,393)**	**(42,833,219)**	**(18,468,294)**
-	-	-	45,000,000	45,000,000
-	-	-	-	744,195
164,695,393	15,580,148	656,960,846	6,894,006	1,155,078,201
(160,675,520)	(415,565,732)	(45,885,267)	(3,254,886)	(1,133,888,797)
4,019,873	**(399,985,584)**	**611,075,579**	**48,639,120**	**66,933,599**
25,542,729	**(206,939)**	**19,865,186**	**5,805,901**	**48,465,305**
72,318,315	**53,216,008**	**0**	**43,192,333**	**380,628,675**
$ 97,861,044	**$ 53,009,069**	**$ 19,865,186**	**$ 48,998,234**	**$ 429,093,980**

State of Vermont
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2006

Total net change in fund balances from the previous page	$	48,465,305
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period (net of internal service funds).		
Capital outlay/functional expenditures and expensed net book value of disposed capital assets		107,138,213
Depreciation expense		(75,089,055)
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayment		49,866,311
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
Bonds issued		(45,000,000)
Bond premium is amortized over the life of the bonds in the statement of activities		529,405
Refunding bonds gain amortized over the life of the refunded bonds		(1,091,927)
Bond issuance costs are reported as expenditures in the governmental funds, but this cost is amortized over the life of the bonds in the statement of activities		137,664
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds		5,433,408
Estimated personal income tax refunds that are not due and payable are not governmental fund liabilities		(4,844,575)
Some expenses reported in the statement of activities do not require the use of current financial resources and, thererfore, are not reported as expenditures in the governmental funds.		
Net increase in accrued interest payable		(1,418,696)
Accreted interest on capital appreciation bonds		(2,445,078)
Increase in compensated absences		(1,161,601)
Increase in employer pension related costs		(31,953,604)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities		4,252,486
Notes and loans issued by governmental funds are reported as an expenditure in governmental funds and repayments are reported as a revenue in the governmental funds, but the issuances and repayment increase or decrease notes and loans receivable in the statement of net assets		11,322,351
Total changes in net assets of governmental activities as reported on the statement of activities	$	64,140,607

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-type Activities - Enterprise Funds		
ASSETS	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Current Assets:			
Cash and cash equivalents	$ 202,558,504	$ 1,154,862	$ 2,086,775
Investments	-	-	-
Receivables:			
Taxes receivable (net of allowance for uncollectibles)	8,634,074	-	-
Accrued interest receivable	-	-	-
Accounts receivable (net of allowance for uncollectibles)	366,531	111,621	507,269
Loans receivable	-	-	-
Due from other funds	-	-	11,623
Intergovernmental receivable - federal	144,597	-	-
Inventories, at cost	-	4,367,766	422,845
Prepaid expenses	-	-	-
Total current assets	211,703,706	5,634,249	3,028,512
Restricted and Noncurrent Assets:			
Cash-subscription reserve fund	-	-	-
Investments	-	-	3,028,976
Loans receivable	-	-	-
Accounts receivable - subscriptions	-	-	-
Imprest cash and change fund - advances	-	5,700	300,000
Total restricted & noncurrent assets	0	5,700	3,328,976
Capital Assets:			
Land	-	-	-
Construction in progress	-	-	-
Capital assets being depreciated:			
Machinery, equipment and buildings	-	886,831	269,347
Less accumulated depreciation	-	(630,200)	(159,422)
Total capital assets, net of depreciation	0	256,631	109,925
Total assets	211,703,706	5,896,580	6,467,413
LIABILITIES			
Current Liabilities:			
Accounts payable	1,677,357	3,783,031	742,956
Accrued salaries and benefits	-	388,175	139,394
Claims payable	-	-	-
Due to lottery winners	-	-	479,723
Due to agents	-	276,198	-
Due to other funds	11,375	255,528	-
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	1,554,375
Deferred revenue	-	-	168,942
Other Liabilities	693,795	-	-
Total current liabilities	2,382,527	4,702,932	3,085,390
Liabilities Payable From Restricted Assets:			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	2,449,589
Advances from other funds	-	5,700	300,000
Total liabilities payable from restricted assets	0	5,700	2,749,589
Total liabilities	2,382,527	4,708,632	5,834,979
NET ASSETS			
Invested in capital assets	-	256,631	109,925
Restricted for unemployment compensation benefits	209,321,179	-	-
Unrestricted	-	931,317	522,509
Total net assets	$ 209,321,179	$ 1,187,948	$ 632,434

The accompanying notes are an integral part of these financial statements.

Business-type Activities - Enterprise Funds: Non-major Enterprise Funds	Business-type Activities - Enterprise Funds: Total Enterprise Funds	Governmental Activities: Total Internal Service Funds
$ 1,141,206	$ 206,941,347	$ 46,177,629
-	-	-
-	8,634,074	-
5,395	5,395	-
277,799	1,263,220	12,222,545
936,370	936,370	-
11,375	22,998	-
-	144,597	-
365,338	5,155,949	2,626,247
159,731	159,731	1,060,286
2,897,214	**223,263,681**	**62,086,707**
642,684	642,684	-
-	3,028,976	-
972,596	972,596	-
68,188	68,188	-
2,900	308,600	15,100
1,686,368	**5,021,044**	**15,100**
-	-	26,156
-	-	2,058,377
21,640	1,177,818	61,888,280
(16,254)	(805,876)	(33,146,008)
5,386	**371,942**	**30,826,805**
4,588,968	**228,656,667**	**92,928,612**
305,463	6,508,807	3,293,796
99,473	627,042	2,915,962
-	-	33,489,006
-	479,723	-
-	276,198	-
-	266,903	-
821,385	821,385	30,470,438
-	1,554,375	-
247,569	416,511	1,528,597
-	693,795	-
1,473,890	**11,644,739**	**71,697,799**
642,684	642,684	-
-	2,449,589	-
2,900	308,600	15,100
645,584	**3,400,873**	**15,100**
2,119,474	**15,045,612**	**71,712,899**
5,386	371,942	30,826,805
-	209,321,179	-
2,464,108	3,917,934	(9,611,092)
$ 2,469,494	**$ 213,611,055**	**$ 21,215,713**

Adjustment to reflect the consolidation of internal service activities related to enterprise funds	96,798
Net Assets - Business-type Activities................	$ 213,707,853

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Operating Revenues			
Charges for sales and services	$ 49,277,052	$ 39,739,399	$ -
Ticket sales	-		104,853,954
Rental income	-	-	-
License fees	-	227,766	-
Federal donated property	-	-	-
Advertising revenue	-	-	-
Other operating revenues	8,151,152	1,513,132	24,670
Total operating revenues	**57,428,204**	**41,480,297**	**104,878,624**
Operating Expenses			
Cost of sales and services	77,331,978	32,180,959	-
Lottery ticket prizes	-	-	66,450,281
Agents commissions and fees	-	-	6,151,262
Tri-State (megabucks) and MUSL (powerball) expenses	-	-	2,681,054
Lottery tickets	-	-	1,274,637
Salaries and benefits	-	-	1,133,298
Insurance premium expense	-	-	-
Transportation	-	-	205,408
Contractual services	-	-	-
Repairs and maintenance	-	-	-
Warehouse expense	-	1,025,924	-
Depreciation	-	117,751	37,449
Rental expense	-	-	77,611
Utilities and property management	-	-	-
Non-capital equipment purchased	-	-	-
Stores and agencies expense	-	4,266,327	-
Promotions and advertising	-	-	381,788
Administrative expenses	-	1,459,982	2,760,196
Inspection and enforcement expense	-	1,462,305	-
Supplies and parts	-	-	14,937
Distribution and postage	-	-	-
Travel	-	-	-
Loss on bad debts	-	-	-
Other operating expenses	8,151,152	(142)	1,101,550
Total operating expenses	**85,483,130**	**40,513,106**	**82,269,471**
Operating income (loss)	**(28,054,926)**	**967,191**	**22,609,153**
Non-Operating Revenues (Expenses)			
Gain (loss) on disposal of capital assets	-	8,386	(45)
Investment income (expense)	9,848,568	-	(65,877)
Total non-operating revenues (expenses)	**9,848,568**	**8,386**	**(65,922)**
Income (loss) before contributions and transfers	**(18,206,358)**	**975,577**	**22,543,231**
Capital contributions from (to) other funds	-	-	-
Transfer in	-	-	-
Transfer out	(328,238)	(263,305)	(23,013,768)
Changes in net assets	**(18,534,596)**	**712,272**	**(470,537)**
Total net assets, July 1	**227,855,775**	**475,676**	**1,102,971**
Total net assets, June 30	**$ 209,321,179**	**$ 1,187,948**	**$ 632,434**

The accompanying notes are an integral part of these financial statements.

Business-type Activities - Enterprise Funds		Governmental Activities
Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 1,763,037	$ 90,779,488	$ 175,968,697
-	104,853,954	-
-	-	12,119,674
-	227,766	-
283,204	283,204	-
502,715	502,715	-
99,917	9,788,871	2,870,594
2,648,873	**206,435,998**	**190,958,965**
950,157	110,463,094	118,574,278
-	66,450,281	-
-	6,151,262	-
-	2,681,054	-
-	1,274,637	-
932,141	2,065,439	26,249,787
416	416	6,972,072
41,078	246,486	191,899
79	79	3,504,319
954	954	3,575,300
-	1,025,924	-
2,371	157,571	6,627,566
18,662	96,273	2,037,881
9,596	9,596	8,942,910
1,322	1,322	1,134,043
-	4,266,327	-
369,047	750,835	-
285,025	4,505,203	7,045,647
-	1,462,305	-
16,735	31,672	7,865,467
223,088	223,088	-
8,569	8,569	-
8,901	8,901	-
78,002	9,330,562	326,542
2,946,143	**211,211,850**	**193,047,711**
(297,270)	**(4,775,852)**	**(2,088,746)**
-	8,341	23,832
49,308	9,831,999	1,351,345
49,308	**9,840,340**	**1,375,177**
(247,962)	**5,064,488**	**(713,569)**
-	-	360,728
328,238	328,238	7,848,503
(271,056)	(23,876,367)	(3,237,016)
(190,780)	**(18,483,641)**	**4,258,646**
2,660,274	**232,094,696**	**16,957,067**
$ 2,469,494	**$ 213,611,055**	**$ 21,215,713**

Total change in net assets reported above................	(18,483,641)
Consolidation adjustment of internal service activities related to enterprise funds.....................	6,160
Change in net assets - business-type activities..........	$ (18,477,481)

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Cash Flows from Operating Activities:			
Cash received from customers	$ 49,541,729	$ 53,632,885	$ 104,860,739
Cash paid to suppliers for goods and services	-	(38,849,846)	-
Cash paid to employees for services	-	(3,213,102)	(1,121,675)
Cash paid for prizes and commissions	-	-	(72,467,641)
Cash paid to claimants	(77,432,402)	-	-
Liquor taxes and licenses paid	-	(13,672,136)	-
Cash paid for fees, operations and other	-	-	(9,126,597)
Other operating revenues (expenses)	(233,280)	1,513,275	24,670
Net cash provided (used) by operating activities	**(28,123,953)**	**(588,924)**	**22,169,496**
Cash Flows from Noncapital Financing Activities:			
Operating transfers in (out)	-	(263,305)	(23,013,759)
Interfund loans and advances	-	-	-
Net cash provided (used) by noncapital financing activities	**0**	**(263,305)**	**(23,013,759)**
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(33,585)	(7,000)
Proceeds from sale of capital assets	-	8,386	-
Net cash provided (used) by capital and related financing activities	**0**	**(25,199)**	**(7,000)**
Cash Flows From Investing Activities:			
Interest and dividends on investments	9,848,568	-	203,505
Proceeds from sales/maturities of investments	-	-	245,736
Interest & penalties received (paid)	(336,261)	-	-
Excess cash transferred	-	-	-
Net cash provided (used) by investing activities	**9,512,307**	**0**	**449,241**
Net increase (decrease) in cash and cash equivalents	**(18,611,646)**	**(877,428)**	**(402,022)**
Cash and cash equivalents at July 1	**221,170,150**	**2,037,990**	**2,788,797**
Cash and cash equivalents at June 30 (see note below)	**$ 202,558,504**	**$ 1,160,562**	**$ 2,386,775**
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	$ (28,054,926)	$ 967,191	$ 22,609,153
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	-	117,751	37,449
(Increase) decrease in accounts/taxes receivable	98,161	(6,416)	5,530
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in inventory	-	(267,826)	174,766
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in intergovernmental receivable - federal	(66,764)	-	-
Increase (decrease) in accounts payable	133,670	(1,274,658)	(629,416)
Increase (decrease) in accrued salaries and benefits	-	29,052	11,623
Increase (decrease) in claims payable	-	-	-
Increase (decrease) in due to lottery winners	-	-	(245,736)
Increase (decrease) in due to agents	-	18,258	-
Increase (decrease) in future and unclaimed prizes payable	-	-	204,872
Increase (decrease) in deferred revenue	-	-	1,255
Increase (decrease) in due to other funds	-	(172,276)	-
Increase (decrease) in other liabilities	(234,094)	-	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	**(69,027)**	**(1,556,115)**	**(439,657)**
Net cash provided (used) by operating activities	**$ (28,123,953)**	**$ (588,924)**	**$ 22,169,496**

[1] July 1 balance restated for cash overdraft in Unemployment Compensation Trust Fund.

NOTE: Total cash/cash equivalents at June 30 on the cash flow statement is equal to cash/cash equivalents, cash-subscription reserve fund, and imprest cash on the Statement of Net Assets.

The accompanying notes are an integral part of these financial statements.

Business-type Activities - Enterprise Funds		Governmental Activities
Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 2,980,633	$ 211,015,986	$ 187,540,668
(2,586,504)	(41,436,350)	(67,662,202)
(922,578)	(5,257,355)	(25,954,517)
-	(72,467,641)	-
-	(77,432,402)	(93,329,539)
-	(13,672,136)	-
-	(9,126,597)	-
19,056	1,323,721	2,558,272
(509,393)	**(7,052,774)**	**3,152,682**
-	(23,277,064)	4,743,965
150,378	150,378	379,129
150,378	**(23,126,686)**	**5,123,094**
(5,340)	(45,925)	(7,944,737)
-	8,386	466,564
(5,340)	**(37,539)**	**(7,478,173)**
49,308	10,101,381	1,351,345
-	245,736	-
336,262	1	-
(271,056)	(271,056)	-
114,514	**10,076,062**	**1,351,345**
(249,841)	**(20,140,937)**	**2,148,948**
2,036,631	**228,033,568**	**44,043,781**
$ 1,786,790	**$ 207,892,631**	**$ 46,192,729**
$ (297,270)	$ (4,775,852)	$ (2,088,746)
2,371	157,571	6,627,566
(79,116)	18,159	(580,355)
(323,392)	(323,392)	-
1,631	1,631	-
-	-	32,650
16,027	(77,033)	(430,079)
(47,002)	(47,002)	(23,274)
-	(66,764)	
245,928	(1,524,476)	(1,365,614)
9,564	50,239	295,270
-	-	634,680
-	(245,736)	-
-	18,258	-
-	204,872	-
(31,515)	(30,260)	(36,684)
-	(172,276)	87,268
-	(234,094)	-
(6,619)	(6,619)	-
(212,123)	**(2,276,922)**	**5,241,428**
$ (509,393)	**$ (7,052,774)**	**$ 3,152,682**

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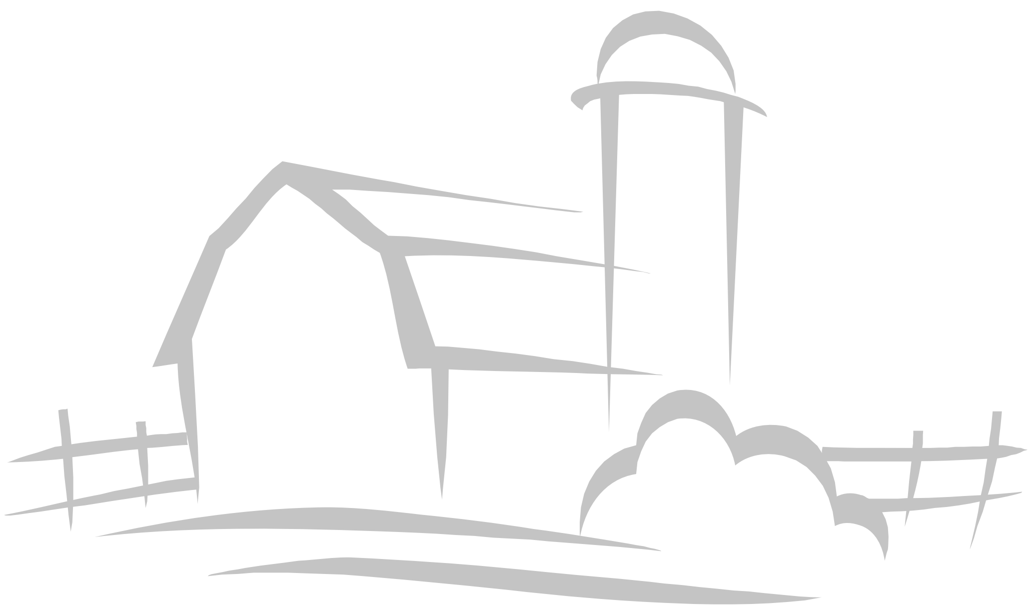

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Pension Trust Funds	Private Purpose Trust Fund: Unclaimed Property Fund	Agency Funds
ASSETS			
Cash and cash equivalents	$ 390,080,692	$ 3,647,013	$ 7,018,782
Investments at fair value	2,848,491,356	-	-
Receivables:			
Taxes	-	-	639,377
Contributions	7,516,531	-	-
Investment principal and interest	15,759,787	-	-
Investments sold	58,239,182	-	-
Other	11,041,514	-	126,093
Due from other funds	-	-	31,655
Prepaid expenses	2,211,276	-	-
Other assets	-	906,259	-
Capital assets:			
Construction in progress	214,302	-	-
Total assets	**3,333,554,640**	**4,553,272**	**7,815,907**
LIABILITIES			
Liabilities:			
Accounts payable	2,441,184	3,036	-
Accrued liabilities	103,242	16,548	-
Claims payable	-	3,818,587	-
Due to other funds	-	56,155	529,774
Retainage	43,107	-	-
Interfund loans payable	-	-	171,184
Due to depositories	-	-	8,008
Intergovernmental payable - other governments	-	-	2,535,212
Amounts held in custody for others	-	-	3,817,528
Payable for investments purchased	247,659,669	-	-
Other liabilities	-	-	754,201
Total liabilities	**250,247,202**	**3,894,326**	**$ 7,815,907**
Net assets held in trust for benefits & other purposes	**$ 3,083,307,438**	**$ 658,946**	
RECONCILIATION OF NET ASSETS HELD IN TRUST:			
Employees' pension benefits	$ 3,083,307,438	$ -	
Other purposes	-	658,946	
Net assets held in trust for benefits & other purposes	**$ 3,083,307,438**	**$ 658,946**	

The accompanying notes are an integral part of these financial statements.

STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Pension Trust Funds	Private Purpose Trust Fund: Unclaimed Property Fund
ADDITIONS		
Contributions:		
Employer	$ 71,542,857	$ -
Plan member	46,324,725	-
Transfers from non-state systems	110,315	-
Medicare part D drug subsidy	539,224	-
Total contributions	118,517,121	0
Investment Income:		
Net appreciation in fair value of investments	190,096,440	-
Dividends	36,120,410	-
Interest income	59,289,139	138,920
Securities lending income	1,193,512	-
Other income	1,568,101	-
Less Investment Expenses:		
Investment managers and consultants	(10,211,964)	-
Securities lending expenses	(396,902)	-
Net investment income	277,658,736	138,920
Escheat property remittances	-	3,111,321
Total additions	**396,175,857**	**3,250,241**
DEDUCTIONS		
Retirement benefits	137,561,877	-
Refunds of contributions	3,269,622	-
Death claims	475,426	-
Operating expenses	26,581,076	701,111
Transfers out	-	2,252,762
Total deductions	**167,888,001**	**2,953,873**
Change in net assets	**228,287,856**	**296,368**
Net assets held in trust for benefits & other purposes:		
July 1	**2,855,019,582**	**362,578**
June 30	**$ 3,083,307,438**	**$ 658,946**

The accompanying notes are an integral part of these financial statements.

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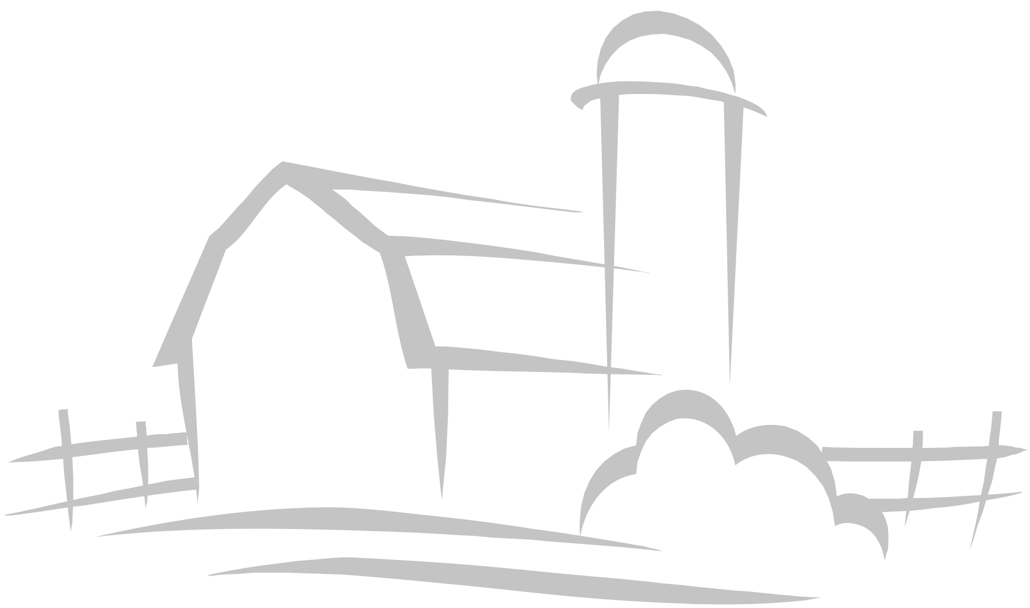

Vermont

Component Unit Financial Statements

STATE OF VERMONT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2006

ASSETS	Vermont Student Assistance Corporation 06/30/2006	University of Vermont and State Agricultural College 06/30/2006	Vermont State Colleges 06/30/2006	Non-major Component Units	Total Component Units
Current Assets:					
Cash and cash equivalents	$ 151,041,000	$ 22,962,000	$ 13,682,874	$ 33,118,882	$ 220,804,756
Investments	1,167,000	88,879,000	10,510,223	7,652,661	108,208,884
Accounts receivable (net)	-	28,610,000	7,977,100	1,806,847	38,393,947
Accrued interest receivable - loans	41,736,000	-	-	14,256,439	55,992,439
Accrued interest receivable - investments	572,000	-	-	-	572,000
Loans and notes receivable - current portion	117,298,000	3,317,000	-	44,534,869	165,149,869
Other receivables	2,211,000	3,935,000	-	127,569	6,273,569
Due from federal government	109,000	-	-	14,249,083	14,358,083
Inventories (at cost)	-	-	119,078	107,356	226,434
Prepaid expenses	-	-	-	9,837	9,837
Other current assets	1,572,000	8,255,000	1,283,152	610,273	11,720,425
Total current assets	**315,706,000**	**155,958,000**	**33,572,427**	**116,473,816**	**621,710,243**
Restricted and Non-Current Assets:					
Cash	-	24,198,000	698,815	1,265,873	26,162,688
Investments	-	343,130,000	18,286,817	66,086,216	427,503,033
Deferred bond issue costs	7,991,000	-	-	5,504,011	13,495,011
Loans and notes receivable (net)	1,511,836,000	25,015,000	5,158,015	556,010,084	2,098,019,099
Other assets	-	14,913,000	-	4,820	14,917,820
Total restricted and noncurrent assets	**1,519,827,000**	**407,256,000**	**24,143,647**	**628,871,004**	**2,580,097,651**
Capital Assets:					
Land	3,150,000	17,884,000	5,386,653	312,375	26,733,028
Construction in process	-	73,978,000	4,758,982	78,597	78,815,579
Building and leasehold improvements	16,653,000	427,634,000	119,973,702	12,686,470	576,947,172
Equipment, furniture and fixtures	8,620,000	114,411,000	7,889,236	2,843,454	133,763,690
Infrastructure	-	-	19,516,891	-	19,516,891
Accumulated depreciation	(5,021,000)	(211,512,000)	(80,600,359)	(11,488,596)	(308,621,955)
Total capital assets, net of depreciation	**23,402,000**	**422,395,000**	**76,925,105**	**4,432,300**	**527,154,405**
Total assets	**1,858,935,000**	**985,609,000**	**134,641,179**	**749,777,120**	**3,728,962,299**
LIABILITIES					
Current Liabilities:					
Accounts payable	4,651,000	18,535,000	10,162,924	1,163,358	34,512,282
Accrued salaries and benefits	-	23,745,000	-	1,286,526	25,031,526
Accrued interest payable	-	-	-	711,521	711,521
Bond interest payable	3,120,000	-	-	1,711,905	4,831,905
Deferred revenue	2,086,000	18,011,000	4,256,841	432,312	24,786,153
Accrued arbitrage rebate	233,000	-	-	446,359	679,359
Current portion - bonds, notes and leases payable	735,000	4,433,000	1,875,228	117,037,198	124,080,426
Due to primary government	-	-	-	2,762,812	2,762,812
Escrowed cash deposits	-	-	-	137,278	137,278
Other current liabilities	-	437,000	-	12,223,210	12,660,210
Total current liabilities	**10,825,000**	**65,161,000**	**16,294,993**	**137,912,479**	**230,193,472**
Restricted and Non-Current Liabilities:					
Bonds, notes and leases payable	1,701,970,000	349,214,000	46,808,158	435,056,162	2,533,048,320
Accounts payable and accrued liabilities	-	-	854,025	-	854,025
Accrued arbitrage rebate	23,292,000	-	-	385,906	23,677,906
Other liabilities	-	13,541,000	6,233,914	30,467	19,805,381
Total liabilities payable from restricted assets	**1,725,262,000**	**362,755,000**	**53,896,097**	**435,472,535**	**2,577,385,632**
Total liabilities	**1,736,087,000**	**427,916,000**	**70,191,090**	**573,385,014**	**2,807,579,104**
NET ASSETS					
Invested in capital assets, (net of related debt)	2,111,000	125,562,000	33,325,451	4,432,300	165,430,751
Restricted	69,951,000	306,156,000	13,820,140	126,701,958	516,629,098
Unrestricted - designated	-	-	-	30,000	30,000
Unrestricted	50,786,000	125,975,000	17,304,498	45,227,848	239,293,346
Total net assets	**$ 122,848,000**	**$ 557,693,000**	**$ 64,450,089**	**$ 176,392,106**	**$ 921,383,195**

The accompanying notes are an integral part of these financial statements.

STATE OF VERMONT
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2006

Function/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Vermont Student Assistance Corporation	$ 154,884,000	$ 84,537,000	$ 75,937,000	$ -	$ 5,590,000
University of Vermont and State Agricultural College	453,127,000	241,837,000	196,167,000	8,234,000	(6,889,000)
Vermont State Colleges	135,102,593	83,360,619	50,145,122	1,664,675	67,823
Non-major component units	61,848,235	41,440,876	13,145,779	752,492	(6,509,088)
Total component units	$ 804,961,828	$ 451,175,495	$ 335,394,901	$ 10,651,167	(7,740,265)

General Revenues:	
Property transfer tax	15,671,180
Investment income	55,017,880
Additions to non-expendable endowments	761,704
Miscellaneous	129,925
Total general revenues	71,580,689
Changes in net assets	63,840,424
Net assets - beginning	857,542,771
Net assets - ending	$ 921,383,195

The accompanying notes are an integral part of these financial statements.

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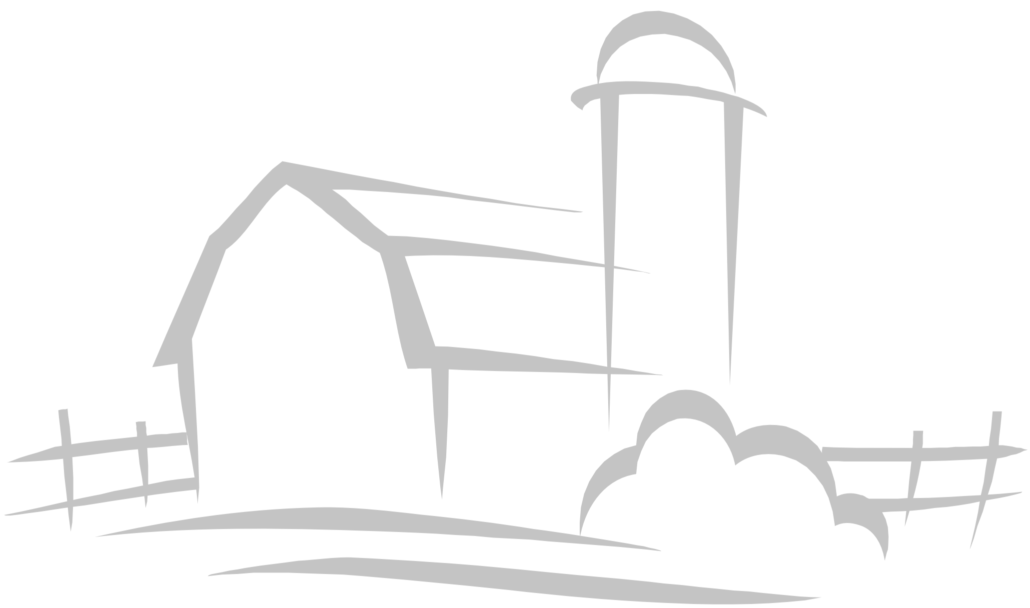

Vermont

State of Vermont
Notes to the Financial Statements
Fiscal Year Ended June 30, 2006

INDEX

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Vermont have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Newly implemented in these statements are the requirements of GASB Statement No. 42 - "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries;" GASB Statement No. 46 - "Net Assets Restricted by Enabling Legislation (an amendment of GASB Statement No. 34);" and GASB Statement No. 47 - "Accounting for Termination Benefits."

The accompanying financial statements present the financial position of the State, the results of operations of the State and the various funds and fund types, and the cash flows of the various proprietary funds. The financial statements are presented as of and for the period ending June 30, 2006.

A. Reporting Entity

The financial statements include the various agencies, boards, commissions, public trusts, and authorities of the State as well as legally separate entities over which the State's executive, legislative, and judicial branches exercise oversight responsibility. Oversight responsibility as defined by GASB includes the following considerations:

Financial interdependency
Selection of governing authority
Designation of management
Ability to significantly influence operations
Accountability for fiscal matters

In addition, the following criteria were considered during the evaluation of the legally separate entities for inclusion in the CAFR as Component Units:

the scope of public services as to whether its activity benefits the State or its citizens, and whether the activity is conducted within the geographic boundaries of Vermont and is generally available to Vermont residents; and

the existence of any special relationships regardless of whether the government exercises oversight responsibility that would cause the State's financial statements to be misleading or incomplete if the entity's financial activity were to be omitted.

Entities that may meet only one of the above criteria have not been included in this report.

As required by generally accepted accounting principles, these financial statements present the primary government and component units of the State of Vermont.

COMPONENT UNITS

Component Units are entities that, although legally separate from the State, have been included because they are either financially accountable to the State, or have relationships with the State such that exclusion would cause the State's financial statements to be misleading or incomplete. Their activity may be "blended" into the activity of the primary government or may be reported separately. If they are reported separately, they are called "discretely presented component units." Vermont does not report any blended component units in this CAFR but does report discretely presented component units that may report blended component units in their financial statements (See the Vermont Municipal Bond Bank). Component Unit's designation as either "major" or "non-major" has been determined by applying the criteria of GASB Statement No. 34. See Section C – Fund Financial Statements – for definitions of major and non-major funds. Additional information as well as separately issued financial reports may be obtained by contacting the individual entity desired at the address given in the following text.

The "Discretely Presented Component Units" columns contained in the government-wide financial statements report the financial results of the following entities:

Major Component Units

Vermont Student Assistance Corporation (VSAC) – VSAC was established by the Vermont Legislature to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. For further information, contact their administrative offices at the Champlain Mill, P.O. Box 2000, Winooski, Vermont 05404-2601.

University Of Vermont (UVM) - The University of Vermont's financial report includes both the university and the State Agricultural College. Additional information may be obtained by contacting the university's administrative offices at 348 Waterman Building, Burlington, Vermont 05405.

Vermont State College System (VSC) – The Vermont State College System's annual report includes the financial activity for the following organizations:

System Offices and Services
Community College of Vermont
Castleton State College
Johnson State College
Lyndon State College
Vermont Technical College
Vermont Interactive Television
Practical Nursing Program
Vermont Manufacturing Extension Center

Additional information about the system itself or about any of the individual organizations included in the system may be obtained by contacting the Office of the Chancellor, Vermont State Colleges, Stanley Hall, Park Street, PO Box 359, Waterbury, Vermont 05676.

Non-major Component Units

Vermont Educational and Health Buildings Financing Agency (VEHBFA) – VEHBFA is a non-profit entity which finances or assists in the financing of projects for eligible educational or health related entities. It has a December 31 (annual) year-end and issues audited financial statements under separate cover. For additional information, they may be contacted at 58 East State Street, Montpelier, Vermont 05601-0564.

Vermont Housing and Conservation Board (VHCB) – The Legislature created and charged this non-profit organization with two goals: create affordable housing for Vermont residents; and conserve and protect Vermont's agricultural lands, historic properties, important natural areas, and recreational lands. VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 149 State Street, Montpelier, Vermont 05602.

Vermont Economic Development Authority (VEDA) – VEDA, a tax-exempt entity, was created by the Vermont Legislature for the purpose of promoting economic prosperity in the State by directly financing eligible businesses and projects including manufacturing, agricultural, and travel and tourism enterprises; and by operating programs which provide eligible borrowers with access to capital.

VEDA also administers the State Infrastructure Bank (SIB) and the Drinking Water State Revolving Loan Fund – Private Loans. These two funds are administered for the benefit of the State and are consolidated and reported in VEDA's agency fund. Audited financial statements and additional information may be obtained by contacting VEDA at 56 East State Street, Suite 5, Montpelier, Vermont 05602.

Vermont Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purpose of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for the financing of public improvements or other public purposes. VMBB is authorized to carry out these charges by borrowing money or by issuing its own bonds and notes to obtain funds which are then utilized to purchase bonds and notes issued by local governmental entities. It has an annual fiscal year (December 31) and issues audited financial statements under separate cover.

VMBB also administers the *Special Environmental Revolving Fund* in accordance with 24 V.S.A. 4753(b). This fund was created by the Vermont Legislature for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. The fund has a June 30 year-end and issues its own audited financial statements. For financial reporting purposes, its financial statements have been consolidated with the State's Federal Revenue Fund financial statements in this CAFR. Further information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 58 East State Street, Montpelier, Vermont 05601-0564.

Vermont Center For Geographic Information (VCGI) – The Vermont Legislature established VCGI and charged it with creating a comprehensive strategy for the development and use of a geographic information system. Audited financial statements or additional information may be obtained by contacting them at 58 South Main Street, Suite 2, Waterbury, Vermont 05676.

Vermont Sustainable Jobs Fund, Inc. – The Vermont Legislature established a jobs program and directed VEDA to set up a non-profit 503(c)(3) corporation to implement the program and to establish policies and procedures in order to fulfill the goals of the jobs program as listed in 10 V.S.A. 326(a). Audited financial statements and additional information may be obtained by contacting them at 56 East State Street, Montpelier, Vermont 05602.

Vermont Transportation Authority (VTA) – The Vermont Legislature specifically authorized the creation of VTA pursuant to the acquisition, operation, and support of an authorized transportation facility as defined in 29 V.S.A. 701. It had no activity during fiscal year 2006 as operations were discontinued on February 28, 2003. Additional information may be obtained from the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

Vermont Veterans' Home – The Vermont Veterans' Home was originally chartered in 1884 by the Vermont Legislature and incorporated on November 24, 1884. A Board of Trustees appointed by the Governor oversees the operations of the Vermont Veterans' Home. The Vermont Veterans' Home issues its own audited financial statements under separate cover. Additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

Vermont Rehabilitation Corporation – The Vermont Rehabilitation Corporation is a non-profit quasi-public corporation that was incorporated in 1935 in accordance with 10 V.S.A. 272-277. Its main purpose is to provide a limited source of loan funds to family farmers or prospective family farmers under terms and conditions which will reduce their investment costs to an extent that offers them a reasonable chance to succeed. Additional information may be obtained by contacting the Vermont State Treasurer at 109 State Street, 4th Floor, Montpelier, Vermont 05609-6200.

JOINT VENTURES

A joint venture is a legal entity or other contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. The following entities in which the State has been participating have been classified as joint ventures. The financial activities of these organizations have not been included in the

State's financial statements; however, see Note 13 for a summary of the financial activity of the Tri-State Lotto Commission.

Connecticut River Atlantic Salmon Committee (10 V.S.A. 4654)
Connecticut River Valley Flood Control Commission (10 V.S.A. 1153)
New England Board of Higher Education (16 V.S.A. 2692)
New England Interstate Water Pollution Control Commission (10 V.S.A. 1333)
Northeastern Forest Fire Protection Commission (10 V.S.A. 2503)
Tri-State Lotto Commission (31 V.S.A. 673)
Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

RELATED ORGANIZATIONS

Related organizations are separate legal entities for which the primary government is accountable only because it appoints a voting majority of the board but for which it is not financially accountable. The following entities have been classified as related organizations but their financial activity has not been included in the State's financial statements.

Vermont State Housing Authority (24 V.S.A. 4005)
Vermont Housing Finance Agency (10 V.S.A. 611)

EXCLUDED ORGANIZATIONS

The following entities have been determined not to be part of the reporting entity after applying the criteria of GASB Statement No. 14 "The Financial Reporting Entity."

Vermont Council on the Humanities
Vermont Council on the Arts
Vermont Historical Society
Vermont Public Power Supply Authority

These organizations have not been included in the reporting entity because they are legally separate entities and the voting majority of their governing boards are not appointed by the State. They are not fiscally dependent on the State's primary government and exclusion from the reporting entity would not render Vermont's financial statements incomplete or misleading.

B. Government-wide Financial Statements

Vermont's Government-wide Financial Statements (the Statement of Net Assets and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units, except fiduciary activity. Fiduciary fund activity has not been included in these entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of intrafund activity has also been removed from these government-wide statements. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities' sources of revenues are normally taxes and inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources by management are not presented as restricted net assets. When both restricted and non-restricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

C. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and major component units. Major governmental funds, major proprietary funds, and major component units are reported in individual columns in their respective fund financial statements. Non-major funds are consolidated and reported in a single column. The single test for classifying a fund as either major or non-major consists of applying the following two steps:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc) for all funds in that category or type (that is total governmental or total enterprise), **and**
b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition to the above major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users (i.e. because of public interest or for consistency) may be reported as a major fund.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of year-end. Principle revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. See special consideration for personal income tax revenue recognition under the "Receivables" section of this footnote.

Expenditures generally are recorded when a liability is due and payable. See the "Tax Refunds" section of this footnote for the special consideration afforded the recognition of personal income tax refunds in this report.

Modifications to the modified accrual basis of accounting include:

a. Employees' vested annual, personal, and compensated leave time are recorded as expenditures when utilized. The amount of accumulated leave unpaid at the end of the fiscal year has been reported only in the government-wide financial statements and does not include any accruals for the State's share of any taxes due when the expenditures are actually paid. See the "Compensated Absences" section of this footnote for additional information.

b. Interest on general long-term debt is recognized when due to be paid.
c. Debt service expenditures and claims and judgments are recorded only when payment is due to be paid.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Proprietary Fund Type Component Units – The financial statements presented for these types of funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred. The State's proprietary funds have elected not to apply standards issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from non–operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations). Revenues and expenses not meeting this definition are categorized as non-operating revenues and expenses.

University of Vermont (UVM) and the Vermont State College System (VSC) – These entities account for their activity using the economic resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles set forth for public colleges and universities.

E. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. A fund is defined as a separate accounting entity with a self-balancing set of accounts. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following governmental, proprietary and fiduciary funds:

GOVERNMENTAL FUNDS

General Fund – The Vermont Legislature has established the General Fund as the basic operating fund of the State. As such, the General Fund is used to finance and to account for all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

Special Revenue Funds - These funds are used to account for revenues specifically earmarked to finance only particular or restricted programs and activities and include the following:

Transportation Fund – This fund is a major special revenue fund. It is used primarily for preservation, maintenance, and improvements to the State's transportation infrastructure. This infrastructure includes highways, bridges, railroads, airports, public transportation, and other related activities. The fund is also used for maintenance and staffing of highway rest areas, construction of transportation capital facilities, and to provide funding for transportation related debt service requirements. The principle sources of revenue in this fund are motor fuel taxes, motor vehicle purchase and use tax, motor vehicle license and registration fees, traffic ticket revenue, other statutorily specified revenues, as well as reimbursements from the federal government for transportation projects.

Education Fund – This fund is a major special revenue fund. It was established by the Vermont Legislature to equalize statewide education funding requirements. Sources of funding and allowable expenditures are codified in 16 V.S.A. 4025. These allowable expenditures include payments to school districts and supervisory unions for the support of education, the costs of short-term borrowing, and education property tax rebates. Funding includes the statewide education tax, allocations of other taxes, State lottery profits, Medicaid reimbursements, and appropriated transfers from the General Fund.

Special Fund – This fund is a major special revenue fund. It consolidates many individual special revenue funds that account for proceeds or specific revenues not categorized above that are legally restricted to expenditures for specific purposes. These purposes cross the entire range of state government activities.

Federal Revenue Fund – This fund is a major special revenue fund. All federal grant receipts are recorded in this fund except for those federal funds specifically designated for transportation or fish and wildlife purposes. Federal grants of these latter two types are recorded in the State's Transportation Fund or Fish and Wildlife Fund respectively.

Global Commitment (to health) Fund – This fund is a major special revenue fund created in accordance with Section16c of 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal Government. This agreement caps Federal expenditures in Medicaid services for five years but gives Vermont great latitude in promoting universal access to health care, cost containment, and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies. As part of the agreement, the Agency of Human Resources (AHS) has contracted with the Office of Vermont Health Access, which will serve as a publicly sponsored managed care organization, and adhere to all Federal managed care organization regulations.

General, Special and Federal Revenue Funds are used to fund payments of actuarially certified premiums from the Agency of Human Services to the managed care organization within the Office of Vermont Health Access for the purpose of providing services under the global commitment to health care waiver approved by the Federal Centers for Medicare and Medicaid Services under Section 1115 of the Social Security Act. These payments are reported as transfers out of the General, Special and Federal Revenue Funds and as transfers in to the Global Commitment Fund.

These funds will be expended as appropriated by the general assembly, authorized by the Director of the Office of Vermont Health Access, and approved by the Commissioner of Finance and Management consistent with agreements between the managed care organization within the Office of Vermont Health Access and departments delivering eligible services under the waiver.

Fish and Wildlife Fund – This fund is a non-major special revenue fund. The fund's revenue is restricted by statute and can only be utilized for fish and wildlife purposes. Principle sources of revenue include license fees and federal grants.

Capital Projects Funds – These funds, consisting of the General Bond Fund and the Transportation Bond Fund, are non-major governmental funds, and account for capital improvement expenditures. These appropriations are primarily funded by the issuance of State capital bonds. These capital expenditures may be for the State directly or for outside organizations such as the Vermont State College System, municipalities, etc.

Permanent Funds – These are non-major governmental funds that report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or citizenry, such as higher education, cemetery care, monument preservation, etc.

PROPRIETARY FUNDS

These funds account for those activities for which the intent of management is to recover the cost of providing goods or services to the general public or other departments of government primarily through user charges; or where prudent financial management dictates that periodic determinations of results of operations are appropriate. These funds include the following types:

Enterprise Funds – These eight funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. Three of these enterprise funds are reported as "major funds" while the remaining five are reported as non-major funds.

Internal Service Funds – These funds are used to account for the financing of goods and services provided by one State department to other State agencies, departments, or intergovernmental units. Their objective is not to make a profit but rather to recover the total cost of providing these goods and services by charging users of their services and products. In 2006, a new internal service fund, State Resource Management Revolving Fund, is reported for the first time. This brings the total number of internal service funds reported by the State to twenty-two. In the government-wide financial statements, Internal Service Funds are reported within the governmental activities.

FIDUCIARY FUNDS

These funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These funds include the following:

Pension Trust Funds – These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement System of Vermont, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, and the State's Single Deposit Investment Account.

Private Purpose Trust Fund – The State reports only one fund under this category, the *Unclaimed Property Fund* managed by the State Treasurer's Office. This fund accounts for all abandoned property in the State that is required to be reported and sent to the State for safekeeping. The State Treasurer is required to return this property to its rightful owner if he/she can be determined. If no one claims the property after a prescribed amount of time has passed, the Treasurer is required to convert non-cash property to cash and transfer it to the General Fund where the Legislature will appropriate it. However, if a valid claim is submitted after the Legislature has appropriated this property, the State is still required to return this property or its equivalent value to the rightful owner.

Agency Funds – These funds report assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding, etc.

BUDGETARY PROCESS

Vermont statutes require the head of every State department, board, and commission and any officer or individual responsible for any activity for which funds are appropriated by the Vermont Legislature to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by the November 1 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the Vermont Legislature to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis usually at the program level. The Governor may amend appropriations within limits established by statute. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

CASH AND CASH EQUIVALENTS

Cash balances for most funds are deposited with the State Treasurer, except for the Pension Trust Funds, Capital Projects Funds, and the Single Deposit Investment Account Fund. Cash balances deposited with the State Treasurer are pooled together and amounts that are not immediately required are invested in short-term investments.

Income earned by these short-term investments is allocated to those funds authorized to receive it while any remaining earnings are deposited in the General Fund.

Cash and cash equivalents as reported in the financial statements include bank accounts, imprest cash, short-term investments with an original maturity of 3 months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

RECEIVABLES

Receivables in the government-wide financial statements represent amounts due to the State at June 30 that will be collected at some time in the future. They consist primarily of accrued taxes and federal grants receivable.

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from drinking water and clean water special environmental loans. Other receivables includes primarily fees, fines, and expenditure reimbursements due to the Medicaid program from drug companies and third party insurance companies. Revenues accrued in the governmental funds financial statements consist primarily of accrued taxes, and notes receivable from component units that will be collected by the State within 60 days. Amounts estimated to be collected after the 60-day period, are recorded as deferred revenues. Federal receivables are amounts due from the federal government to reimburse the State's expenditures incurred pursuant to federally funded programs. Federal grant revenues are accrued when the qualifying expenditure is incurred. Notes receivable in the General Fund consist primarily of Vermont Economic Development Authority notes purchased by the State. See Note 12 – Contingent Liabilities for further information. No allowances for uncollectible amounts have been recognized in these notes receivable.

The "Investments Sold" receivable balance on the Statement of Fiduciary Net Assets – Pension Trust Funds represent monies due to the respective retirement funds for investments sold or matured prior to June 30, 2006, but for which the receipts were received subsequent to June 30, 2006.

The "Other" receivable balance in the Vermont Municipal Employees' Retirement Fund represents the remaining cash balance due from several municipal entities that recently joined this plan. Please see Note 5A – Retirement Plan Descriptions for further information regarding these new entities.

INVENTORIES

Inventories of materials and supplies reported in the governmental funds are recorded as expenditures when purchased. Inventories reported in the proprietary funds are generally valued at the lower of average cost or market. However, inventories reported in the Federal Surplus Property Fund (an enterprise fund) are reported at the federal acquisition cost.

CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include property, plant, equipment, and infrastructure assets are recorded in the Government-wide Statement of Net Assets at historical cost if available or, if donated or the actual cost is not known, at the estimated fair market value at the date the State acquired them. Interest incurred on debt issued for construction of these capital assets is not capitalized.

Vermont defines a Capital Asset as a physical resource that costs at least $5,000 and provides a future economic benefit for a minimum of 2 years. This includes capital leases and buildings that are not considered to be part of an infrastructure asset. All land regardless of cost, is capitalized and is not depreciated.

Infrastructure assets are defined as long-lived economic resources that are normally stationary in nature, utilized primarily by the general public as compared to State employees, cost at least $50,000 and provide future economic benefit for at least 3 years. Normally, infrastructure assets are much greater in value, have a longer economic life, and can be preserved for a greater number of years than most capital assets.

Capital assets are depreciated over their useful lives using the straight-line mid-month depreciation method. Useful lives for buildings are 20 to 50 years, equipment is 3 to 24 years and infrastructure assets are 6 to 80 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes 4 and 7, respectively.

Capital assets in the proprietary funds are capitalized at cost when acquired. Depreciation is calculated and recorded using the straight-line method with estimated useful lives being the same as those for the governmental capital assets.

When a capital asset is disposed of, its cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements.

DEFERRED REVENUE

Revenues in the government-wide financial statements and the proprietary fund financial statements are deferred if cash has been received prior to being earned. In governmental fund statements deferred revenues are recognized when revenues are unearned or unavailable.

PAYABLES

The accounts payable balances contained in the financial statements consist of operating liabilities that were incurred and payment was due prior to year-end (usually June 30) and where payment was actually made subsequent to year-end. When paying its liabilities, it is the policy of the State to apply restricted resources first to situations where either restricted or unrestricted net assets may be used.

The "payable for investments purchased" balance for the Pension Trust Funds represents amounts due for securities purchased prior to June 30, 2006, which were paid subsequent to June 30, 2006.

ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned by employees as of June 30, 2006. Retainage payable consists of portions of progress payment amounts due to contractors that have been withheld and which will be paid by the State to the contractors upon final completion and acceptance of the contracted item or service.

TAX REFUNDS

Tax refunds primarily represent amounts owed by the State to taxpayers because of overpayment of their 2005 calendar year and first and second quarter 2006 calendar year personal income tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount reported as tax refunds payable at June 30, 2006 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2006. The amount reported as tax refunds payable at June 30, 2006 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2006 tax liability as well as overpayments for calendar year 2005 and prior years' tax liabilities that have not been paid out as of June 30, 2006.

ENCUMBRANCES

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. When the terms of the purchase order or contract have been fulfilled and payment to the contracting party is due, the encumbrance is liquidated and the liability and expenditure are recorded. Un-liquidated encumbrances remaining at fiscal year-end are reported in the Reserved for Encumbrances account as a component of fund equity for the governmental fund types.

FUND BALANCES

Fund balances for governmental funds are either reserved or unreserved. Reserved fund balances reflect either (1) assets which, by their nature, are not available for appropriation; (2) funds legally separated for a specific use such as "reserved for encumbrances;" or (3) funds segregated by legal restrictions.

Certain other reservations of the Governmental Funds' fund balances are described below.

Budget Stabilization Reserve – These reserves are established in the General, Transportation, and Education funds. They were created to reduce the effects of annual variations in State revenues by reserving certain surpluses of revenue. See Note 10 for a more complete disclosure of these reserves as it pertains to the current fiscal year.

Reserve For Debt Service – During fiscal year 1993, the State initiated a lawsuit to recover costs associated with asbestos removal. A settlement agreement between the contractor and the State was reached which resulted in net proceeds of $1,734,543 being credited to and reserved in the General Fund to meet future debt obligations associated with issuance of bonds relating to asbestos removal. The reserved amount is reduced annually through fiscal year 2009 in proportion to the repayment schedule of the bonds issued to refinance the asbestos removal. The remaining reserved balance at June 30, 2006 is $20,679. The reserve for debt service also includes the premium on the sale of bonds for general obligation bonds sold during the fiscal year. This portion of the reserve will be appropriated in the following fiscal year to be used on the first payment of principal or interest due on the bonds.

Reserve For Human Caseload Management- – The General Fund reserve for human caseload management, established pursuant to 32 V.S.A. Section 308b(a) was created to be available for appropriation to meet caseload-related needs at the Agency of Human Services. The Secretary of Administration may transfer to this reserve any general fund unexpended appropriations directly attributable to Aid To Needy Families With Children (ANFC) caseload reductions and the effective management of related federal receipts.

COMPENSATED ABSENCES

Compensated absences include accumulated unpaid vacation, compensatory time, and personal leave credits. Classified State employees may accrue vacation leave based on the number of years employed up to a maximum rate of 24 days annually and may not accumulate more than a maximum of 45 days (360 hours) at any one time. This liability is expected to be liquidated in future periods as either salary payments or cash payments upon termination of employment. Compensatory time and personal leave time accumulates as earned by the employees but must be taken within an accrual year or forfeited.

Liabilities for compensated absences are recorded in the fund where the employees are assigned. The amounts are calculated based on an employee's pay rate in effect on June 30, 2006. Additional information including changes in balances may be found in Note 16 – Changes in Long-term Liabilities.

Employees earn sick leave credits based on the number of years employed with a maximum accrual rate of 21 days per fiscal year. Sick leave may only be liquidated if and when sickness or injury is incurred. Additionally, if employment is terminated, any sick leave that the individual may have accrued is forfeited without any payout; therefore, it is not an accruable liability to the State. There is no limit on the amount of sick leave an employee may accumulate.

BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS

In the government-wide financial statements, bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issued are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

INTERFUND TRANSACTIONS

Interfund Loans – Short-term loans between funds outstanding at year-end for such things as cash overdrafts are recorded as Interfund Receivables/Payables. Advances To/From Other Funds represent long-term interfund loans receivable and payable.

Reimbursements – Reimbursements result when one fund makes an expenditure for a second fund when that expenditure or expense is properly applicable to the second fund. Reimbursement transactions reduce expenditures in the reimbursed fund and increase expenditures/expenses in the reimbursing fund.

Quasi-External Transactions –These transactions occur between two government funds that would be accounted for as revenue and expenditures if they occurred between a government entity and a private sector entity.

Transfers – These transfers encompass all types of transfers, except for the residual equity transfers, and are primarily routine transfers of appropriation resources between funds. Transfers are not revenue, expenditures, or expenses, and are classified as "Other Financing Sources (Uses)" in the operating statements of the governmental funds and in a separate subsection before net income in the proprietary funds.

PREPAID EXPENSES

In governmental funds, all purchases are recorded as expenditures when paid. In the proprietary and fiduciary funds, certain payments reflect costs applicable to future accounting periods and as such, are recorded as prepaid expenses. These prepaid items will be expensed as they are liquidated.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, that affect disclosure of contingent assets and liabilities as of the date of the financial statements, and that affect the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates.

Note 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Primary Government

Deposits and investments for the primary government are governed by State statutes. When depositing public monies, the State Treasurer must act in accordance with 32 V.S.A. 431. Although the statute provides requirements for the collateralization of deposits, it does not establish limits. These limits are set by published formal guidelines issued by the State Treasurer. The State has an investment policy with an overriding goal of providing optimum coverage of risk exposure and maintaining liquidity necessary for future cash needs while maximizing the return on investments. State statute governs the investment of the state's non-pension funds' operating and restricted cash. When investing public monies, the State Treasurer must act in accordance with 32 V.S.A. 433. Types of investments allowed include obligations of the United States, its agencies and instrumentalities, and any repurchase agreements whose underlying collateral consists of such obligations; certificates of deposit issued by banks and savings and loan associations approved by the State Treasurer; prime bankers' acceptances; prime commercial paper; tax exempt securities; and domestic money market funds. In addition, the State Treasurer's Office issues additional formal guidance that is reviewed periodically, to assure that the three investment objectives -- safety, liquidity, and yield -- are met. The statutory guidelines for certain trust funds are contained in 32 V.S.A. 434, referred collectively as the Trust Investment Account. The State Treasurer may invest funds in accordance with the standard of care established by the prudent investor rule and apply the same investment objectives and policies adopted by the Vermont State Employees' Retirement System, where appropriate, to the investment of funds in the trust investment account.

The State has three defined benefit plans, two defined contribution plans, and a single deposit investment account, which comprise the Pension Trust Funds. By statute, the assets of the three defined benefit plans (State Employees, State Teachers, and Municipal Employees) are invested on behalf of each System's trustees through the Vermont Pension Investment Committee (VPIC), which was created by the Vermont Legislature effective July 1, 2005. The majority of these assets have been pooled for investment purposes. As of June 30, 2006, real estate, venture capital, and other alternative investments have not been pooled.

Each of the systems has equity in pooled investment vehicles based on funds contributed and earnings allocated. Earnings in each pooled investment are allocated based on the month-end balances of each of the respective systems. Individual investment securities are not specifically identified to the respective systems. For financial statement presentation, the pooled assets, liabilities, revenues, and expenses have been allocated to and presented in each respective system in the basic financial statements.

Each defined benefit plan has its own asset allocation as determined by the VPIC and deemed adopted by each system's board in the absence of board action to the contrary. As of May 31, 2006, the VPIC adopted a set of investment policies and guidelines common to all three defined benefit plans. These are used by VPIC with the objective of maximizing returns within acceptable risk parameters.

Custodial Credit Risk – Deposits
The custodial credit risk for deposits is the risk that in the event of a depository financial institution failure, the government will not be able to recover deposits deposited in the failed institution or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository (FDIC) insurance and are uncollateralized or collateralized with securities held by the pledging financial institution or by the pledging financial institution's trust department or agent but not in the depositor – government's name. Although not statutorily required, the State Treasurer requires the State's cash deposits to be collateralized with either United States Treasury securities or Vermont Municipal securities or a combination of both. Certificates of deposit are collateralized, in whole or in part, on the basis of agreements with the bank, a protocol requiring periodic due diligence and review of bank capitalization. The deposits in banks in excess of the FDIC amounts and collateral agreements are uninsured and uncollateralized. The

deposits for the primary government (including certificates of deposit) at June 30, 2006, were $93.4 million. Of these, $8.4 million was exposed to custodial credit risk as uninsured and uncollateralized. In addition, there are pension related cash equivalents of $115.7 million not classified as short-term investments in the investment disclosures below. These are not collateralized and are accounted for in the investment manager accounts held at custodial banks.

Investments

Investments are stated at market value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Money market and other short-term investments are reported at market value when published market prices and quotations are available, or at amortized cost, which approximates fair value. Real estate (including timber investments) is carried at the net asset value of each retirement system's real estate fund investment(s), which net asset value is further based on the fair market value of the real properties. Properties' fair market values in each of the retirement systems' fund investments are established quarterly by real estate fund manager appraisals and are validated at least yearly by third-party property appraisals. Nonmarketable securities include alternative investments such as private equity and venture capital, which are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. Such valuations generally consider variables such as the high, medium, and low values for portfolio investments; the investments' exit timetables, and the status of any proceedings leading to a liquidity event; the financial performance of investments, including comparison of comparable companies' earning multiples; cash flow analysis; and recent sales prices of investments. Management at the State Treasurer's Office is responsible for the fair measurements of investments reported in the financial statements. The State Treasurer's Office has implemented policies and procedures to assess the reasonableness of the fair values provided; the Office believes that reported fair values at the balance sheet date are reasonable.

Cash and cash equivalents on the financial statements include $272,166,606 from pension trust funds and $24,010,954 of bond funds which are classified as investments and are included in the primary government's investment schedule.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The primary government's investments at June 30, 2006 are presented on the following page.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the monetary magnitude of the State's investment in a single issuer should the issuer fail. While State statute does not establish ceilings, formal investment guidelines limit the amount invested in a single issue, generally no more than 10% in non-pension funds. Formal guidelines for the State's pension funds state that no more than 5% of the market value of a portfolio's domestic fixed income assets may be invested in the debt securities of any one issuer with the exception that there will be no limitations on the amount invested in the obligations of the U.S. Government and Federal Agencies. As of June 30, 2006, no issuer exceeded 5%.

Primary Government Investments
(Expressed in Thousands)

Investment Type	Fair Value	Investment Maturities (in years): Less Than 1	1 to <6	6 to 10	More Than 10
US Agencies/Treasuries	$ 812,462	$ 389,325	$ 77,806	$ 15,741	$ 329,590
Corporate Debt	377,083	15,441	184,818	86,413	90,411
Money Market Mutual Fund	48,359	48,359	-	-	-
Commercial Paper	146,623	146,623	-	-	-
Municipals	2,099	-	-	-	2,099
Asset Backed Securities	73,268	1,033	3,162	4,924	64,148
Mortgage Backed Securities	117,750	-	283	617	116,850
Sovereign Debt	78,867	8,582	36,960	17,034	16,291
Other	5,954	274	4,744	628	308
Total	1,662,465	$ 609,636	$307,773	$125,357	$ 619,698
Other Investments					
Equity Mutual Funds	298,708				
Equity Securities	1,238,333				
US Unemployment Trust Pool	202,518				
Other Mutual Funds	45,784				
Real Estate/Venture Capital	232,803				
Other	(18)				
Total	$3,680,593				

Credit Risk of Debt Investments
Credit risk is the possibility that the issuer or other counterparty to an investment may not be able to fulfill their obligations. In non-pension funds this risk has been mitigated by implementing statutory guidelines on credit quality and further restricted by formal investment guidelines. Detailed pension guidelines by asset class and supplemental requirements by investment manager are used to set risk parameters. The primary government's rated debt investments as of June 30, 2006 were rated by Moody's, or other equivalent nationally recognized statistical rating organization. The credit risk associated with the State's debt securities, money market funds, bond mutual funds, and other pools of fixed income securities are presented as follows using the Moody's rating scale.

Primary Government Rated Debt Investments
(expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings Aaa	Aa	A
US Agencies/Treasuries	$ 812,462	$ 383,025	$ -	$ -
Corporate Debt	377,083	13,084	25,824	48,609
Money Market Mutual Fund	48,359	48,259	-	-
Commercial Paper	146,623	-	-	-
Municipal Debt	2,099	1,029	682	161
Asset Backed Securities	73,268	56,813	-	694
Collateralized Mortgage Obligations	117,750	82,476	1,054	1,142
Sovereign Debt	78,867	52,612	-	6,972
Other	5,954	4,709	380	-

Debt Investments	Quality Ratings Baa	Ba	B and below	Unrated	Short Term A1
US Agencies/Treasuries	$ -	$ -	$ -	$ 429,437	$ -
Corporate Debt	121,145	58,939	89,251	20,231	-
Money Market Mutual Fund	-	-	-	100	-
Commercial Paper	-	-	-	-	146,623
Municipal Debt	227	-	-	-	-
Asset Backed Securities	298	-	740	14,723	-
Collateralized Mortgage Obligations	365	-	-	32,713	-
Sovereign Debt	-	-	-	19,283	-
Other	-	-	-	865	-

Foreign Currency Risk
Foreign currency risk is the extent to which changes in exchange rates will affect the fair value of an investment (or a deposit). The value in US dollars by foreign currency denomination and by type of investment is as follows.

Foreign Currency Risk - International Securities at Fair Value

Currency	Total	Short Term	Debt[1]	Equity
Australian Dollar	$ 37,329,441	$ 53	$ 10,686,650	$ 26,642,738
Brazilian Real	1,722,393	-	1,722,393	-
Canadian Dollar	8,593,609	203	6,204,746	2,388,660
Danish Krone	261,722	107		261,615
Euro Currency	196,925,727	1,249,881	38,872,958	156,802,888
Hong Kong Dollar	10,746,160	234,399	-	10,511,761
Indonesian Rupiah	1,411,473	-	1,411,473	-
Japanese Yen	93,897,444	895,660	23,906,243	69,095,541
Mexican Peso	3,267,213	120,033	3,147,180	-
New Zealand Dollar	4,208,030	284	2,177,522	2,030,224
Norwegian Krone	108,236	608	-	107,628
Polish Zloty	7,970,240	208,717	7,761,523	-
Pound Sterling	89,675,508	783,389	2,337,564	86,554,555
Singapore Dollar	8,578,136	2,233	4,536,823	4,039,080
South African Rand	2,308,644	-	224,979	2,083,665
Swedish Krona	7,138,156	530	4,557,511	2,580,115
Swiss Franc	10,992,691	6,982	-	10,985,709
Thailand Baht	938,964	-	938,964	-
	$ 486,073,787	$ 3,503,079	$ 108,486,529	$ 374,084,179

[1] Corporate and Sovereign

Non-pension funds invested under the authority of 32 V.S.A. Section 433 are restricted, through statute and formal guidelines, to specific money market instruments and money market funds investing in domestic instruments. Most foreign currency exposure is in the pension trust fund portfolios, totaling $485,515,562. In the Trust Investment Account portfolio total exposure is $558,225, comprised of Canadian and Singapore currency for equity securities.

Formal investment policy guidelines adopted by the VPIC state that international equity managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility rather than leverage portfolio risk exposure. Opportunistic currency positioning may be utilized to hedge and cross-hedge the portfolio's currency risk exposure or in the settlement of securities transactions. The managers may vary the total portfolio exposure to currency from fully unhedged to fully hedged. The global fixed income managers are permitted to hedge all, some or none of the portfolio's currency exposure. They are permitted to cross hedge currency positions, but may not be net short any currency, or long more than 100% of the portfolio. VPIC has funds allocated to a global asset manager in the form of shares of a commingled trust. The manager for this trust may enter into long and/or short positions in currencies of the countries represented in established indices. The strategy is permitted to cross-hedge currency exposure and will actively manage its currency exposure. This active management may go beyond fully-hedged or unhedged currency exposure, and is provided for by a specific exemption to the VPIC general guidelines.

Securities Lending Transactions

State statutes and boards of trustees' policies permit the Office of the Vermont State Treasurer to use investments of the three defined benefit pension plans to enter into securities lending transactions/loans of securities to broker dealers and other entities for collateral, with a simultaneous agreement to return the collateral for the same securities in the future. Pursuant to a Securities Lending Authorization Agreement, State

Street Bank and Trust Company was authorized to act as agent in lending securities to broker-dealers and banks.

During the fiscal year, State Street lent, on behalf of Vermont, certain securities held by State Street as custodian and received United States and foreign currency cash, and securities issued or guaranteed by the United States government. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan equal to not less than one hundred two percent (102%) of the market value of the loaned security in order to provide excess coverage for possible changes in loaned security market value.

The State did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the Fiscal year. There were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2006, such investment pool had a weighted average maturity of 50 days and an average expected maturity of 191 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2006, Vermont had no credit risk exposure to borrowers. The collateral held and the market values of securities on loan for Vermont as of June 30, 2006, were $350,799,194 and $345,718,911 respectively. Below are the statutory references that allow the pension plans to participate in the securities lending program.

Statute Reference Retirement Plan
3 V.S.A. 471(m) Vermont State Employees' Retirement Fund
16 V.S.A. 1942(q) Vermont Teachers' Retirement Fund
24 V.S.A. 5062(o) Vermont Municipal Employees' Retirement Fund

Derivative Financial Instruments
The investment managers for the Vermont Pension Investment Committee (VPIC) invest in derivative financial investments as authorized by the VPIC policy. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed-upon benchmark. At June 30, 2006, VPIC investments had four types of derivative financial instruments: futures, currency forwards, options, and swaps. All of the derivatives reported at June 30, 2006 are at fair market value. The futures and options are traded on the exchanges and are marked-to-market daily using the closing settlement price on that day. Interest rate swaps, credit default swaps, and currency options are traded over the counter and are based on mid prices that brokers provide daily. Swaptions are traded over the counter and are priced by the investment manager both internally and by using Bloomberg as a pricing source. Currency forwards are traded over the counter, and the investment manager uses Reuters and Bloomberg as pricing sources.

Futures
Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the VPIC's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At June 30, 2006, the VPIC's investments had the following futures balances:

	Value Covered by Contract
Long – equity futures	$ (554,163)
Long – debt securities futures	94,958
Short – debt securities futures	(88,786)

Foreign Currency Forwards
Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net realized gains or losses on foreign currency related transactions. At June 30, 2006, the VPIC's investments included currency forwards balances of $659,629 for pending foreign exchange purchases and $(1,056,696) for pending foreign exchange sales.

Options
Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the VPIC receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the VPIC pays a premium at the outset of the agreement, and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At June 30, 2006, the VPIC investments had the following option balances:

Cash and cash equivalent purchased call options	$	1,168,238
Cash and cash equivalent purchased put options		325,504
Fixed income written call options		(979,340)
Fixed income written put options		(531,946)

Swaps
Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At the end of the year, the VPIC had three different types of swap arrangements – interest rate swaps, currency swaps, and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed the VPIC to effectively convert most of their long-term variable interest rate credit facility loans into fixed interest rate loans. A currency swap is a foreign exchange agreement between two parties to exchange a given amount of one currency for another and, after a specified period of time, to give back the original amounts swapped. The credit default swaps protect the rental cash flows on one of the VPIC's real estate investments in case the major tenant defaults on its lease contract. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Net Assets. The VPIC's investments at June 30, 2006, had the swap market value balances as shown in the schedule on the following page.

Asset-Backed securities
The Pension systems hold mortgage-backed securities including collateralized mortgage obligations (CMOs) at fair value. Mortgage-backed securities represent a direct interest in a pool of mortgage loans. CMOs are bonds that are collateralized by whole loan mortgages, mortgages pass-through securities, or stripped mortgage-backed securities. Income is derived from payments and pre-payments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment tranches in accordance with the payment order established for the CMO instrument. Cash flows associated with these tranches may demonstrate varying degrees of sensitivity to interest rate fluctuations. A reduction in interest rates may cause some of the tranches to experience a reduction in fair value as prepayments reduce the interest payments, causing a decline in total cash flows. In a rising interest rate environment, an increase in interest payment and cash flows may cause an increase in fair value.

Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk. Agency fixed and floating rate pass-throughs, U.S. Treasury securities and cash equivalents can be held without limitation. Securities designed to provide more precisely targeted maturities (Sequential Collateralized Mortgage Obligations) and those that create tranches, or Planned Amortization Classes (PAC I and PAC II), with cash flows that are protected from prepayment changes within certain limits, may also be purchased without limitation.

Policy restrictions and portfolio percentage limitations are established for the purchase of more interest rate sensitive instruments and certain interest rate and price stress tests are required.

Asset-backed securities are collateralized by a loan, lease, or receivable other than real estate. Payments are collected by a servicer though a "pass-through" arrangement. As monthly payments of principal and interest are made, the pass-through security holder is entitled to a pro rata portion of the payments received. Risk of prepayment varies with the underling assets. Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk.

SWAPS	Outstanding Notational Amount (Base Used to Calculate Interest)	Interest Rate	Maturity Date	Fair Value
Interest Rate Swaps				
Merrill Lynch	$4,200,000	6.25%/3 mo. LIBOR	6/15/2015	$ 9,708
Morgan Stanley	23,500,500	4%/6 mo. EURIBOR	12/15/2011	202,951
Morgan Stanley	13,700,000	5.75%/6 mo. LIBOR	12/15/2014	276,038
Barclays Capital	9,800,800	4%/6 mo EURIBOR	12/15/2011	84,635
Deutsche Bank	7,600,000	4%/6 mo EURIBOR	12/15/2011	65,635
Barclays Capital	4,900,000	4%/6 mo. LIBOR	12/15/2014	120,307
Goldman Sachs	25,543,455	1.9%/6mo. LIBOR JPY	12/20/2013	(154,954)
Goldman Sachs	4,286,402	1.41%/6 mo. LIBOR JPY	12/15/2014	172,106
Morgan Stanley	9,462,008	6%/6 mo. LIBOR Euro	6/18/2034	996,984
Barclays Capital	554,865	5%/6 mo. LIBOR GBP	9/15/2010	(3,562)
Barclays Capital	600,000	5%/3 mo. LIBOR	12/20/2013	23,326
Goldman Sachs	3,000,000	5%/3 mo. LIBOR	6/18/2034	(335,340)
Barclays Capital	24,600,000	5%/6 mo. LIBOR	12/20/2011	(683,231)
Barclays Capital	18,400,000	5%/3 mo. LIBOR	12/20/2016	1,007,860
Morgan Stanley	8,300,000	5%/3 mo. LIBOR	12/20/2016	454,633
Deutsche Bank	10,100,000	5%/6 mo. LIBOR	12/20/2011	(280,513)
Deutsche Bank	300,000	5%/6 mo. LIBOR	6/21/2021	(23,577)
Total Interest Rate Swaps:				**$ 1,933,006**
Currency Swaps				
Goldman Sachs	13,000,000	9.17% EUROSWAP	9/25/2006	$ 6,921
JP Morgan	10,900,000	8.87% JPY	6/21/2007	4,333
Total Currency Swaps				**$ 11,254**
Credit Default Swaps				
Citibank	1,200,000	0.29%	6/20/2012	$ (1,993)
Goldman Sachs	1,900,000	0.65%	6/20/2015	(675)
Citibank	1,700,000	0.44%	3/20/2011	7,894
Goldman Sachs	1,200,000	0.70%	12/20/2015	(5,539)
Lehman	4,500,000	0.65%	6/20/2015	(1,600)
Goldman Sachs	2,600,000	0.18%	9/20/2008	5,454
Goldman Sachs	2,100,000	0.65%	6/20/2015	(747)
Citibank	1,000,000	0.75%	3/1/2008	(48)
UPS Securities	200,000	3.55%	6/20/2011	6,490
Deutsche Bank	400,000	0.40%	6/20/2011	(125)
Morgan Stanley	900,000	0.65%	6/20/2010	(320)
UPS Securities	500,000	4.81%	3/20/2011	38,631
Citibank	1,400,000	3.14%	6/20/2007	(14,978)
Merrill Lynch	1,700,000	0.73%	6/20/2009	4,884
JP Morgan	1,600,000	0.40%	6/20/2007	(298)
Deutsche Bank	1,300,000	1.20%	6/20/2016	(37,679)
Total Credit Default Swaps				**$ (649)**

B. Component Units

Each component unit follows deposit and investment policies as determined by their board of directors. In some component units, underlying bond resolutions, letters of credit and bond insurance providers may require specific criteria to be followed. These policies may include collateralization requirements, allowable investment types, allowable national rating agency quality ratings, and concentrations limits by investment type or issuer. The major objective of these policies is to minimize risk along with maximizing gain. In the case of some component units, underlying bond resolutions, letters of credit and bond insurance providers may require specific criteria be followed. A short description of each component unit, as well as contact addresses, can be found in Note 1 section A to these financial statements. Copies of their financial reports or any other information may be obtained by contacting them directly at the addresses contained in Note 1, section A to this report.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, all or a portion of an entity's deposits may not be recovered. The State's component units' bank balances at June 30, 2006 were $249.7 million. Of this total, $53.5 million was either insured or collateralized, while $196.2 million was uninsured and uncollateralized.

Investments

Generally, the State's component units follow investing policies as determined by their board of directors. In some cases, underlying bond resolutions, letter of credit, and bond insurance providers have provided criteria to be followed. The University of Vermont and State Agricultural College (UVM) follows its "Cash Policy" which provides parameters for the investing of its operating funds. UVM endowment funds are invested in accordance with its Board of Trustees' formal investment policy. The State's component units' investments at June 30, 2006 are presented in the following schedule.

Component Units Investments
(expressed in Thousands)

		Investment Maturities (in years)					
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	11 to 20	More than 20	Maturity Not Provided
Debt Investments							
U.S Treasuries	$ 56,732	$ 14,785	$ 162	$ -	$ -	$ 30,814	$ 10,971
Agencies	23,406	1,315	21,748	-	-	-	343
Other Gov't Bonds & Notes	216	-	-	-	-	-	216
Industry Bonds	21,319	-	219	14	938	-	20,149
Asset/Mortgage Backed Securities	3,145	-	2,122	724	-	299	-
Mutual Funds	179,209	-	14,388	22,762	-	-	142,059
	284,028	$ 16,101	$ 38,639	$ 23,500	$ 938	$ 31,113	$ 173,737
Other Investments							
Certificate of Deposit	8,013						
Money Market	260						
Common Stock	74,569						
Partnerships	7,995						
Real Estate	480						
Insurance	47						
Leases	307						
Hedge Funds	54,105						
Held By Bond Trustee	5,381						
Other	975						
Deposits with Trustees	99,552						
Total	$ 535,712						

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Each of the State's component units manages its interest rate risk in accordance with its individual policy.

Credit Risk of Debt Investments
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State's component units' debt investments at June 30, 2006 were rated by Standard and Poor's or a comparable national rating organization. A summary of the component units' ratings is presented in the following schedule.

Component Unit Rated Debt Investments
(Expressed in Thousands)

		Quality Ratings			
Debt Investments	**Fair Value**	**AAA**	**AA/AA+**	**AA-**	**A+**
U.S Treasuries	$ 56,732	$ 56,732	$ -	$ -	$ -
Agencies	23,406	23,406	-	-	-
Other Gov't Bonds & Notes	216	-	-	-	-
Corporate Bonds	21,319	46	355	389	1,133
Asset/Mortgage Backed Securities	3,145	1,900	139	-	418
Mutual Funds	179,209	24,389	2,577	-	-

	Quality Ratings			
Debt Investments	**A**	**A-**	**below A-**	**Unrated**
U.S Treasuries	$ -	$ -	$ -	$ -
Agencies	-	-	-	-
Other Gov't Bonds & Notes	-	-	-	216
Corporate Bonds	211	305	1,125	17,754
Asset/Mortgage Backed Securities	-	-	217	471
Mutual Funds	3,608	-	1,138	147,497

Custodial Credit Risk
Custodial credit risk for investments is defined as the risk that, in the event of a failure of the counterparty, the entity will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. This type of risk is managed by each entity.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer.

Note 3: INTERFUND BALANCES

A. Due From/To Other Funds

Due from/to other funds represents amounts owed to one State fund by another, for goods sold, services received or reimbursement of costs. The balances of due from/to other funds at June 30, 2006, are as follows.

	Due To Other Funds				
	Governmental Funds				
Due From Other Funds	**General Fund**	**Transportation Fund**	**Education Fund**	**Special Fund**	**Federal Revenue Fund**
General Fund	$ -	$ 10,942	$ -	$ 15,958	$ 26,109
Transportation Fund	12,761	-	-	-	365,058
Special Fund	13,567	38,458	-	-	380,549
Federal Revenue Fund	18,113	-	-	64	-
Global Commitment Fund	12,856,753	-	-	20,714,706	53,564,362
Non-major Governmental Funds	-	-	-	5,873	-
Vermont Lottery Commission	-	-	11,623	-	-
Non-major Enterprise Funds	-	-	-	-	-
Fiduciary Funds	26,117	-	-	93	5,445
Total	**$ 12,927,311**	**$ 49,400**	**$ 11,623**	**$ 20,736,694**	**$54,341,523**

continues below

	Governmental Funds	Enterprise Funds			
Due From Other Funds	**Non-major Governmental Funds**	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Fiduciary Funds**	**Total**
General Fund	$ -	$ -	$ 255,528	$ 91,007	**$ 399,544**
Transportation Fund	-	-	-	17,201	**395,020**
Special Fund	242	-	-	477,721	**910,537**
Federal Revenue Fund	-	-	-	-	**18,177**
Global Commitment Fund	-	-	-	-	**87,135,821**
Non-major Governmental Funds	-	-	-	-	**5,873**
Vermont Lottery Commission	-	-	-	-	**11,623**
Non-major Enterprise Funds	-	11,375	-	-	**11,375**
Fiduciary Funds	-	-	-	-	**31,655**
Total	**$ 242**	**$ 11,375**	**$ 255,528**	**$ 585,929**	**$88,919,625**

B. Advances To/From Other Funds

The General Fund has made cash advances to certain proprietary funds for imprest petty cash disbursement needs. The General Fund advances to other funds at June 30, 2006, are summarized below.

Proprietary Funds	
Vermont Lottery Fund	$ 300,000
Liquor Control Fund	5,700
Non-major Proprietary Funds	2,900
Internal Service Funds	15,100
Total	**$ 323,700**

C. Interfund Receivables/Payables

Interfund receivables/payables represent amounts owed to the General Fund by the following funds at June 30, 2006, to eliminate negative cash balances in the State Treasurer's pooled cash.

Proprietary Funds	
Non-major Proprietary Funds	$ 821,385
Internal Service Funds	30,470,438
Fiduciary Funds	
Agency Funds	171,184
Total	**$ 31,463,007**

D. Inter - Primary Government/Component Unit Balances

Due from Component Units/Due to Primary Government

Due from component units consist of the amounts owed to the primary government for programs admistered by component units in accordance with memoranda of understanding with State departments and for the elimination of negative balances in the State Treasurer's pooled cash. At June 30, 2006, these account balances are as follows:

	Due to Primary Government		
	Vermont Housing & Conservation Trust Fund	Vermont Economic Development Authority	Total
Due from Component Units			
General Fund	$ 2,710,982	$ -	**$ 2,710,982**
Special Fund	-	51,830	**51,830**
Total	**$ 2,710,982**	**$ 51,830**	**$ 2,762,812**

E. Interfund Transfers

Transfers between funds occur when one fund collects revenues and transfers the assets to another for expenditure or when one fund provides working capital to another fund. All transfers are legally authorized by the Legislature through either statute or Appropriation Acts. Interfund transfers for the fiscal year ending June 30, 2006, are as follows.

	Transfers Out				
	Governmental Funds				
Transfers In	**General Fund**	**Transportation Fund**	**Education Fund**	**Special Fund**	**Federal Revenue Fund**
General Fund	$ -	$ -	$ -	$ 7,783,985	$ -
Transportation Fund	10,018,030	-	-	300,367	-
Education Fund	259,300,000	-	-	7,292,144	-
Special Fund	105,114,989	2,128,219	-	-	19,869,241
Federal Revenue Fund	-	-	-	1,238,314	-
Global Commitment Fund	117,535,409	-	-	143,728,946	395,696,491
Non-major Governmental Funds	5,223,450	406,792	932,000	331,764	-
Non-major Enterprise Funds	-	-	-	-	-
Internal Service Funds	2,000,000	5,848,503	-	-	-
Total	**$ 499,191,878**	**$ 8,383,514**	**$ 932,000**	**$ 160,675,520**	**$ 415,565,732**

continues below

	Transfers Out				
	Governmental Funds		Enterprise Funds		
Transfers In	**Global Commitment Fund**	**Non-major Governmental Funds**	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Vermont Lottery Commission**
General Fund	$ -	$ -	$ -	$ 263,305	$ -
Transportation Fund	-	-	-	-	-
Education Fund	-	-	-	-	22,883,768
Special Fund	34,513,319	285,000	-	-	130,000
Federal Revenue Fund	11,371,948	2,969,886	-	-	-
Global Commitment Fund	-	-	-	-	-
Non-major Governmental Funds	-	-	-	-	-
Non-major Enterprise Funds	-	-	328,238	-	-
Internal Service Funds	-	-	-	-	-
Total	**$ 45,885,267**	**$ 3,254,886**	**$ 328,238**	**$ 263,305**	**$ 23,013,768**

continues below

	Transfers Out			
	Enterprise Funds			
Transfers In	**Non-major Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total**
General Fund	$ -	$ -	$ 2,252,762	**$ 10,300,052**
Transportation Fund	-	853,447	-	**11,171,844**
Education Fund	-	-	-	**289,475,912**
Special Fund	271,056	2,383,569	-	**164,695,393**
Federal Revenue Fund	-	-	-	**15,580,148**
Global Commitment Fund	-	-	-	**656,960,846**
Non-major Governmental Funds	-	-	-	**6,894,006**
Non-major Enterprise Funds	-	-	-	**328,238**
Internal Service Funds	-	-	-	**7,848,503**
Total	**$ 271,056**	**$ 3,237,016**	**$ 2,252,762**	**$1,163,254,942**

The Education Fund received transfers from the General Fund and the Vermont Lottery Commission to support the general State grant for local education and transfers from the Special Fund for local school reimbursement of medicaid eligible costs.

The Special Fund received transfers from the General Fund for the State funding to the Vermont Health Access program, and from the Federal Revenue Fund for the low income home energy assistance program and education medicaid reimbursements.

The Global Commitment Fund received transfers from the General, Special and Federal Revenue Funds for medicaid related services provided under the Vermont Global Commitment to Health medicaid waiver.

Note 4: CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2006 were as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 68,611,339	$ 2,530,543	$ -	$ -	$ 71,141,882
Construction in process	445,486,411	118,781,094	(226,257,483)	(20,678,389)	317,331,633
Works of Art	111,521	-	-	-	111,521
Total capital assets, not being depreciated	514,209,271	121,311,637	(226,257,483)	(20,678,389)	388,585,036
Capital assets, being depreciated:					
Buildings and improvements	308,901,428	24,078,622	(20,227)	2,973,834	335,933,657
Machinery and equipment	125,909,036	12,382,659	(8,145,577)	226,046	130,372,164
Infrastructure	1,136,348,466	203,707,525	(25,020,195)	(2,036,213)	1,312,999,583
Total capital assets, being depreciated	1,571,158,930	240,168,806	(33,185,999)	1,163,667	1,779,305,404
Less accumulated depreciation for:					
Buildings and improvements	(125,577,673)	(9,280,275)	20,227	48,132	(134,789,589)
Machinery and equipment	(74,014,193)	(16,084,654)	7,083,476	(42,402)	(83,057,773)
Infrastructure	(675,977,406)	(56,351,692)	25,020,195	87,671	(707,221,232)
Total accumulated depreciation	(875,569,272)	(81,716,621)	32,123,898	93,401	(925,068,594)
Total capital assets, being depreciated, net	695,589,658	158,452,185	(1,062,101)	1,257,068	854,236,810
Governmental activities capital assets, net	$ 1,209,798,929	$ 279,763,822	$ (227,319,584)	$ (19,421,321)	$ 1,242,821,846

The adjustments above are primarily construction w ork performed by the Agency of Transportation on infrastructure assets ow ned and capitalized by municipalities.

Business-type Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, being depreciated:					
Buildings and improvements	$ 36,500	$ 7,000	$ (7,625)	$ 50,260	$ 86,135
Machinery and equipment	1,169,989	38,925	(66,971)	(50,260)	1,091,683
Total capital assets, being depreciated	1,206,489	45,925	(74,596)	0	1,177,818
Less accumulated depreciation for:					
Buildings and improvements	(28,324)	(9,035)	7,580	(10,955)	(40,734)
Machinery and equipment	(694,531)	(148,536)	66,969	10,955	(765,143)
Total accumulated depreciation	(722,855)	(157,571)	74,549	0	(805,877)
Total capital assets, being depreciated, net	483,634	(111,646)	(47)	0	371,941
Business-type activities capital assets, net	$ 483,634	$ (111,646)	$ (47)	$ 0	$ 371,941

Current period depreciation expense was charged to functions of the Primary Government as follows:

Governmental Activities:	
General Government	$ 12,363,442
Protection to Persons and Property	3,215,499
Human Services	702,585
Employment & Training	105,497
General Education	44,155
Natural Resources	1,802,527
Commerce and Community Development	36,471
Transportation	56,818,879
Depreciation on Capital Assets held by the Internal Service Funds	6,627,566
Total	$ 81,716,621

Business-type Activities:	
Liquor Control	$ 117,751
Lottery Commission	37,449
Federal Surplus Property	2,000
Vermont Life	371
Total	$ 157,571

Discretely Presented Component Units

	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 25,268,712	$ 1,324,261	$ -	$ 140,055	$ 26,733,028
Construction in process	76,131,969	36,463,922	(13,314,157)	(20,466,155)	78,815,579
Total capital assets, not being depreciated	101,400,681	37,788,183	(13,314,157)	(20,326,100)	105,548,607
Capital assets, being depreciated:					
Buildings and improvements	475,000,025	94,801,611	(2,192,282)	9,337,818	576,947,172
Machinery and equipment	116,585,887	24,868,968	(7,524,266)	(166,899)	133,763,690
Infrastructure	17,824,681	129,262	-	1,562,948	19,516,891
Total capital assets, being depreciated	609,410,593	119,799,841	(9,716,548)	10,733,867	730,227,753
Less accumulated depreciation	(293,808,566)	(23,654,518)	8,840,808	321	(308,621,955)
Total capital assets, being depreciated, net	315,602,027	96,145,323	(875,740)	10,734,188	421,605,798
Component unit capital assets, net	$ 417,002,708	$ 133,933,506	$ (14,189,897)	$ (9,591,912)	$ 527,154,405

Note 5: RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS

A. Retirement Plan Descriptions

Defined Benefit Retirement Plans

In accordance with State statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and two defined contribution plans. These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary fund type. There are no separate stand-alone financial statements issued for these plans.

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer public employee defined benefit retirement system which covers substantially all general State employees and State Police, except employees hired in a temporary capacity. Membership in the system is a condition of employment. The membership consists of:

- general employees who did not join the non-contributory system on July 1, 1981 (Group A), with a contribution rate of 5.1% of payroll (contributions cease upon attainment of 25 years of creditable service);
- State police, law enforcement positions, and airport firefighters hired after July 1, 2000 (Group C), with a contribution rate of 6.28% of payroll;
- judges (Group D), with a contribution rate of 5.1% of payroll;
- terminated vested members of the non-contributory system (Group E); and
- all other general employees (Group F), with a contribution rate of 3.35% of payroll.

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost-sharing, multiple-employer public employee retirement system. It covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the State board of education. Membership in the system for those covered classes is a condition of employment. The membership is made up of:

- general teachers who did not join the non-contributory system on July 1, 1981 (Group A), with a contribution rate of 5.5% of payroll (contributions cease upon attainment of 25 years of creditable service);
- terminated vested members of the non-contributory system (Group B); and
- all other general teachers (Group C), with a contribution rate of 3.54% of covered payroll.

The State appropriates funding for pension costs associated with the above two plans. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could elect to transfer their current memberships from a contributory to a non-contributory membership class (see Note 5 E. Single Deposit Investment Account). However, in 1990, the Legislature again made both systems contributory effective July 1, 1990, for the STRS and January 1, 1991, for the VSRS. The State's contribution to each system is based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are calculated based upon the liabilities of each system as determined by actuarial valuations.

The actuarial method for both the STRS and the VSRS plans is set by State statute. Through fiscal year 2005, the method used was entry age normal (EAN) with frozen initial liability (FIL). The Legislature has enacted a statute change revising the method to entry age normal without FIL for the actuarial valuation for the year ending June 30, 2006, which effectively restated the starting balance.

Under the previous method, set by State statute, the unfunded liability was frozen at 1988 levels. Any impact of underfunding subsequent to the "freezing" of the liability in 1988 falls to normal cost instead of being added to the unfunded liability as in more conventional funding methods. If funding levels approximate the actuarially required contribution (ARC), as in the case of the funding of VSRS, the effect of changing from EAN-FIL to EAN is attributable to variances between the actuarial assumptions and experience.

In the case of STRS, where there has been substantial underfunding of the ARC, the EAN-FIL method has had the effect of creating an improving funding ratio although the total required contribution (sum of the amortized unfunded actuarial accrued liability and normal) rapidly escalates. The unfunded actuarial accrued liability is amortized in a deterministic manner under the FIL method, making it easy for the ratio to rise from one year to the next even in the presence of substantial underfunding. The shift to the EAN method therefore has had the effect of increasing the actuarially unfunded liability and reducing the normal contribution.

Two additional material changes impact the STRS valuation completed for June 30, 2006. The actuarial assumed rate of return for investments was raised by 0.25 basis points. This reflects the beneficial effects of the Vermont Pension Investment Committee's unified pension fund investment process and was recommended by the Commission on Funding the Vermont State Teachers' Retirement System and subsequently adopted by the STRS Board of Trustees. The Commission was created by the Legislature to make recommendations for funding an adequate, sustainable, and actuarially sound retirement benefit plan. In addition to the recommendation to remove the FIL portion of the method and to revise the rate of return assumption, the Commission also recommended, and the Legislature adopted, a change in the amortization of the unfunded liability. The 30-year period for amortization of the unfunded actuarial accrued liability has been restarted effective 7/1/06 for STRS.

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2005, and June 30, 2006, as follows:

	STRS	VSRS
Unfunded actuarial accrued liability, 6/30/2005 (prior to method change)	$ 138,143,845	$ 25,888,547
Actuarial method change*	176,941,130	(4,167,166)
Unfunded actuarial accrued liability, 6/30/2005 (after method change)	315,084,975	21,721,381
Normal cost	41,090,372	31,935,797
Contribution	(46,971,804)	(52,599,434)
Interest on unfunded liability, normal cost and contribution	23,555,571	2,229,073
Actuarial gains and losses/experience	(17,279,917)	1,921,617
Assumption change	(56,370,762)	-
VSERS software and programming changes	-	3,835,570
Unfunded actuarial accrued liability, 6/30/2006	$ 259,108,435	$ 9,044,004

* In STRS, includes software changes for conversion of actuarial software.

The actuarial firm retained by the State has also completed an upgrade to new valuation software. As a result, certain variances were noted, although they are well within generally accepted actuarial tolerance. In addition, several coding changes were made to reflect increased refinement of liabilities for level income option retirees. This variance was included with the actuarial gains and losses/experience classification above.

The Vermont Municipal Employees' Retirement System (MERS) (24 V.S.A., Chapter 125) is a cost-sharing, multiple-employer public employees' retirement system that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer is required to join the system upon the completion of three years of continuous service.

Prior to July 1, 1987, the State was statutorily responsible for contributions to the MERS' pension accumulation fund. Effective July 1, 1987, and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers make quarterly payments into the pension accumulation fund. These payments are percentages of annual earnable compensation for each membership group and consist of a "normal" and an "accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

Defined Contribution Retirement Plans

In accordance with Title 3 of the Vermont Statutes Annotated, Chapter 16A, the State established an optional defined contribution plan for exempt state employees effective January 1, 1999. The Vermont State Defined Contribution Plan is reported in the Pension Trust Funds.

The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. Approximately 375 exempt employees representing 45% of the eligible employees elected to transfer to the defined contribution plan. Assets totaling $21 million were transferred from the defined benefit plan to the defined contribution plan on January 4, 1999, as a result of the election. As the attendant decrease in liabilities in the defined benefit plan was equal to $21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999, have a one-time opportunity to elect either the defined benefit or defined contribution plan.

Employees are required to contribute at the rate of 2.85%. The State is required to contribute to each employee's account at the rate of 7% of the employee's compensation for each payroll period. An employee becomes vested in the plan after completion of 23 months of creditable service as a State employee. For the fiscal year ended June 30, 2006, plan member contributions were $623,988 and State employer contributions were $1,793,339, while members transferred $185,320 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2006, the Vermont State Defined Contribution Plan's net assets totaled $35,643,945, and there were 592 participants.

The Legislature granted authority (24 V.S.A. 5070) to the Vermont Municipal Employees' Retirement System's Board of Trustees to establish a defined contribution plan that could be offered in lieu of the defined benefit plans currently available under the Municipal Retirement System. The board implemented a defined contribution plan that became available to new members effective July 1, 2000. The defined contribution plan was offered by municipal employers to one or more groups of their eligible employees. Once offered by the employer, each eligible employee was required to make an election to participate. Employees participating in one of the municipal defined benefit plans who elected to participate in the defined contribution plan had the July1, 2001, actuarial value of their accrued defined benefit plan transferred to the defined contribution plan. Employers that did not offer the defined contribution plan to their employees as of December 31, 1999, will have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective July 1 of the following year.

Participating municipal employees and their employers are required to contribute at the rate of 5%. Employees become vested in the plan after 12 months of service. For fiscal year ending June 30, 2006, plan participants and the municipalities each contributed $510,412 and $510,349 respectively, while members transferred $234,566 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2006, the Municipal Employees' Defined Contribution Plan's net assets totaled $10,344,220, and there were 527 participants.

Copies of each individual defined benefit retirement plan's annual actuarial valuation report, information describing each defined benefit plan's provisions including vesting requirements, benefits provided, post retirement adjustments, etc., and information relating to the two defined contribution plans are available for inspection at the Retirement Division, Office of the State Treasurer, 109 State Street, Montpelier, Vermont 05609-6901.

B. Plan Membership

At June 30, 2006, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees:			
Vested	5,652	8,020	3,037
Non-vested	2,636	2,676	2,912
Total active employees	8,288	10,696	5,949
Retirees and beneficiaries of deceased retirees currently receiving benefits	4,173	4,879	1,241
Terminated employees entitled to benefits but not yet receiving them (vested)	805	759	418
Inactive members	1,111	2,777	2,075
Total participants	14,377	19,111	9,683

C. Schedule of Employer Contributions

Below are listed the various actuarial methods and significant assumptions used to determine the annual required contributions.

	VSRS	STRS	MERS
Valuation date	06/30/06	06/30/06	07/01/06
Actuarial cost method (1)	Entry Age Normal	Entry Age Normal	Projected benefit cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period (2)	12 years	30 years	12 years
Asset valuation method	Preliminary Asset Value plus 20% difference between market and preliminary asset value	Preliminary Asset Value plus 20% difference between market and preliminary asset value	Actuarial value of assets using a five year smoothing technique
Actuarial assumptions			
Investment rate of return (3)	8.0%	8.25%	8.0%
Projected salary increases	4.50%-7.79%	4.41%-10.68%	5.6%
Cost-of-living adjustments	1.5%-3.0%	1.5%-3.0%	1.5%-1.8%
Post Retirement Adjustments			
Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C & D - 5%	Group A - 5%	N/A
Allowances in payment for at least one year adjusted for cost of living based on one-half of CPI but not in excess of percentage indicated	Group F - 5%	Group C - 5%	Group A - 2% Groups B, C & D - 3%

(1) Beginning with 6/30/06, the actuarial cost method was changed to the Entry Age Normal method for VSRS and STRS.
(2) The 30-year period for amortization of the unfunded actuarial accrued liability has been restarted effective 7/1/06 for STRS.
(3) Beginning with 6/30/06, the funding interest rate has been raised from 8.00% per year to 8.25% per year for STRS.

Schedule Of Employer Contributions

Year Ended 6/30	Annual Required Contribution	Percentage Contributed	NPO Balance
	VSRS		
2004	$ 29,023,431	91.81%	$40,556,248
2005	36,019,056	101.32%	39,639,437
2006	38,214,704	97.58%	40,555,260
	STRS		
2004	41,658,946	58.68%	110,965,452
2005	47,714,318	51.23%	133,282,049
2006	56,627,046	44.06%	164,319,830
	MERS		
2004	6,616,630	100.00%	-
2005	7,359,628	100.00%	-
2006	7,839,769	100.00%	-

D. State of Vermont's Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation (NPO) to the Vermont State Retirement System and the State Teachers' Retirement System at June 30, 2006 were as follows:

	VSRS	STRS
Annual Required Contribution (ARC)	$38,214,704	$56,627,046
Interest on NPO	3,171,155	10,662,467
Adjustment to ARC	(3,603,585)	(11,805,450)
Annual Pension Cost (APC)	37,782,274	55,484,063
Employer Contribution Made	(36,866,451)	(24,446,282)
Increase (Decrease) in NPO	915,823	31,037,781
NPO - Beginning of Year	39,639,437	133,282,049
NPO - End of Year	$40,555,260	$164,319,830
Percentage of APC contributed	97.58%	44.06%

E. Single Deposit Investment Account

Public Act 41 of the 1981 Session authorized a new Group B non-contributory plan within the State Teachers Retirement System (STRS) and a new Group E non-contributory plan within the Vermont State Retirement System (VSRS). The Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan reported in the Pension Trust Funds, was also established according to the provisions of this Act.

The STRS's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group B non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

1) have both their accumulated employee contributions and accumulated interest returned to them; or
2) have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
3) have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

The VSRS's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group E non-contributory plan. Group A members electing to transfer to the Group E plan had their choice between the following three options:

1) have both their accumulated employee contributions and accumulated interest returned to them; or
2) have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
3) have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2006, there were 1,413 STRS members and, 1,088 VSRS members, with net assets of $93.6 million in the Single Deposit Investment Account.

F. Other Post Employment Benefits

The State offers post employment medical insurance, dental insurance, and life insurance benefits in addition to providing pension benefits.

Medical Insurance

Employees retiring directly from active State service for any reason (disability, early, or normal) including the State Police, may carry whatever coverage is in effect at that time into retirement for themselves and their dependents. Currently, 3,122 retirees are enrolled in the medical plan in the single, spouse, and family plan options. The retirees contributed $3.47 million in premiums and incurred $19.5 million in claims expense. During the lifetime of the retiree, 20% of the cost of the premium will be paid by the retiree and 80% paid by the State through the Pension Plan ($12.8 million in fiscal year 2006). If the retiree chooses the joint and survivor pension option, and predeceases his or her spouse, the medical benefits also continue for the spouse, along with the pension. However, generally the surviving spouse must pay 100% of the cost of the premium. If an employee does not retire directly from State service, they are not eligible to participate in the State's medical insurance plan. Likewise, if the insurance is terminated at any time after retirement, coverage will not be able to be obtained again at a later date.

In addition, once a retiree becomes eligible for Medicare coverage (at age 65), it is mandatory that they enroll in both Medicare Part A and Part B as soon as possible. Medicare thus becomes the primary insurer with the State plan becoming secondary. The retiree's State insurance premium costs will then decrease in recognition of this change.

Dental Insurance

Dental insurance is not normally continued after retirement, but a retiree may maintain coverage for up to eighteen months by paying 102% of the premium and making arrangements through the Department of Human Resources.

Life Insurance

In the case of life insurance, if a state employee retires or terminates due to disability prior to age 60, and if proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. When the retiree reaches the age of 65 and if they have a total of 20 years or more of active and retired (while receiving disability) service, life insurance coverage will automatically change to $5,000 with 100% of the premium being paid by the State. In addition, a retiree may convert their insurance coverage in effect at their time of retirement to an individual policy within 30 days of their retirement date without a physical exam.

Medicare Part D - Prescription Drug Subsidy

Under the Medicare, Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), employer sponsors of retiree prescription drug plans can apply for a 28% subsidy for the qualified prescription drug costs of their retirees. To be eligible for the subsidy, the employer coverage must be actuarially equivalent to the new Medicare Part D coverage and the employer must provide notices of creditable prescription drug coverage to individuals entitled to Medicare Part D.

The State Teachers' Retirement System Board of Trustees agreed that they would continue to offer the same prescription drug coverage program during 2006 that has been available to active and retired teachers for the past several years. The Retirement Division has received an attestation from the actuarial firm of Buck Consultants that the prescription drug program offered to retired teachers is equivalent, and in fact, better than the drug program offered through Medicare Part D.

The FY 2006 subsidy is calculated based on the assumption that all of the retired teachers currently carrying the prescription drug coverage will continue to do so, and as a result will not sign up for Medicare Part D. In essence, the subsidy is a rebate to plan sponsors to encourage them to continue to offer prescription drug coverage. As of June 30, 2006, $539,224 was accrued as subsidies that will be received by the STRS dating from January, 2006.

Most public sector retirement plans that offer prescription coverage to their retired population are electing to continue their coverage for at least 2006. By treating 2006 as a "transition year", systems will have time to analyze ways to control adverse selection in the future. Systems will also be able to evaluate the results of the first year of the Medicare Part D Program and its impact on the post-age 65 health care benefits marketplace and prescription drug pricing. The Vermont Teachers' Retirement Board of Trustees will need to determine in future years whether it is in their best interest to continue to offer the same prescription drug program, or whether it should be modified or discontinued. If the determination is to continue to offer the same coverage, the estimated annual subsidy will fluctuate depending on the number of retirees and covered dependents that actually sign up for the Medicare Part D Program. If it is determined that the prescription coverage should either be modified or discontinued, then the savings will be realized by a decrease in medical premiums.

Note 6: RESTRICTED NET ASSETS – Discretely Presented Component Units

Restricted net assets are those portions of total net assets that are not appropriable for expenditure or that are legally segregated for a specific future use. Net assets restricted at June 30, 2006 are as follows.

Restricted for:	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Non-major component units
Restricted - expendable	$ 1,066,000	$ 239,966,000	$ 3,014,455	$ 15,761,404
Restricted - nonexpendable	1,498,000	66,190,000	10,805,685	-
Grants and scholarships	811,000	-	-	-
Bond resolution	66,576,000	-	-	-
Project commitments	-	-	-	14,799,579
Loans receivable[1]	-	-	-	96,140,975
Total Component Units - Restricted Net Assets	$ 69,951,000	$ 306,156,000	$ 13,820,140	$ 126,701,958

[1] Loans receivable for the Vermont Housing & Conservation Board include federally restricted funds.

Note 7: LEASE COMMITMENTS

A. Operating Leases

The State is committed under various operating leases covering real property (land and buildings) and equipment. Although lease terms vary, certain leases continue subject to appropriation by the General Assembly. If continuation is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting purposes. It should also be noted that the State is currently negotiating a small number of operating leases on which rent is being paid on a month-by-month basis and for which there is no signed agreement. These leases have not been included in the following table.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment at June 30, 2006:

	Primary Government			Component Units		
Fiscal Year	Non-Cancelable Leases	Cancelable Leases	Total	Vermont State Colleges	Non-major Component Units	Reporting Entity Total
2007	$ 6,857,613	$ 8,188	$ 6,865,801	$ 1,756,748	$ 238,588	$ 8,861,137
2008	6,042,818	6,923	6,049,741	1,235,698	186,615	7,472,054
2009	4,964,264	4,914	4,969,178	597,737	42,496	5,609,411
2010	3,940,632	3,926	3,944,558	280,835	-	4,225,393
2011	3,034,654	3,218	3,037,872	398,094	-	3,435,966
2012 to 2016	5,937,571	1,376	5,938,947	-	-	5,938,947
Totals	$30,777,552	$ 28,545	$ 30,806,097	$ 4,269,112	$ 467,699	$ 35,542,908

B. Capital Leases

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2006 are as follows:

Fiscal Year	Primary Government	Vermont State Colleges	Total Reporting Entity
2007	$ 359,656	$ 118,282	$ 477,938
2008	190,543	91,878	282,421
2009	166,933	60,005	226,938
2010	124,580	23,055	147,635
2011	4,072	15,505	19,577
2012 - 2013	-	17,315	17,315
Total minimum lease payments	845,784	326,040	1,171,824
Less: interest	(104,948)	(45,219)	(150,167)
Present value of minimum lease payments	$ 740,836	$ 280,821	$ 1,021,657

Note 8: GENERAL OBLIGATION BONDS PAYABLE

General obligation bonds payable have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correctional facilities, environmental conservation purposes, maintenance and construction of highways and assistance to municipalities for construction of water and sewage systems and local schools. Also, bonds have been authorized and issued to refund outstanding general obligation bonds.

Once authorized by the Legislature, the State Treasurer, with the approval of the Governor, may issue general obligation bonds. Except for zero coupon capital appreciation bonds, the bonds are to be payable in substantially equal or diminishing amounts, the first such payment to be payable not later than five years after the date of the bonds, and the last such payment to be made no later than twenty years after the date of the bonds.

Changes in bonds principal payable during fiscal year 2006 are summarized as follows:

Changes in bond and note principal payable during fiscal year 2006 are summarized as follows:

		General Obligation Bonds
Balance, July 1, 2005		$ 463,390,739
Additions:		
Issuances	45,000,000	
Accretions	2,445,078	
Total		47,445,078
Deductions:		
Redemptions	49,562,000	
Total		(49,562,000)
Balance, June 30, 2006		$ 461,273,817

During fiscal years 1991, 1992, and 1994, the State issued zero coupon capital appreciation bonds. Zero coupon capital appreciation bonds are bonds issued at a discount to their face value. Instead of interest being paid on a periodic (i.e. semi-annual) basis, an increase in the principal due (accreted amount) is recognized on a regular basis. The total accreted amount at maturity will be the face value of the bonds.

On December 1,1993, the State issued capital appreciation bonds with a maturity value of $32,625,000 maturing on August 1 in the years 1999 through 2013. Proceeds from these bonds totaled $17,987,640, and have an accreted value of $12,454,585 at June 30, 2006.

On October 30,1991, capital appreciation bonds with a maturity value of $20,575,000 were issued. These bonds mature on October 15 in the years 1996 through 2011. Proceeds from these bonds totaled $9,999,837, and have an accreted value of $6,390,025 at June 30, 2006.

During fiscal year 1991, capital appreciation bonds were issued with a maturity value of $48,935,000, and are scheduled to mature on December 1 in the years 1995 through 2010. Proceeds from these bonds totaled $19,310,002, and have an accreted value of $17,369,208 at June 30, 2006.

Future general obligation debt service requirements at June 30, 2006 are as follows:

Future general obligation debt service requirements at June 30, 2006 are as follows:

Fiscal Year	Current Interest Bonds Principal	Current Interest Bonds Interest	Capital Appreciation Bonds	Total
2007	$ 43,145,000	$ 18,490,819	$ 7,495,000	$ 69,130,819
2008	41,655,000	16,543,094	7,500,000	65,698,094
2009	41,145,000	14,748,212	7,495,000	63,388,212
2010	38,525,000	12,999,511	7,145,000	58,669,511
2011	34,675,000	11,322,774	7,140,000	53,137,774
2012-2016	135,385,000	35,487,916	6,785,000	177,657,916
2017-2021	64,760,000	13,262,149	-	78,022,149
2022-2026	25,770,000	2,545,070	-	28,315,070
Totals	$ 425,060,000	$125,399,544	$ 43,560,000	$ 594,019,544

At June 30, 2006, there remains $45,000,868 of authorized but unissued general obligation bonds.

See following page for a schedule of general obligation bonds outstanding at June 30, 2006.

Note 9: PRIOR YEARS' BOND REFUNDINGS

During fiscal years 2004 and 2005, the State of Vermont defeased "in-substance" certain general obligation bonds by issuing new bonds and by placing the proceeds of these new bonds in irrevocable trusts. These trust assets are utilized to make all debt service payments on the defeased bonds. Accordingly, these trust assets and the liability for the defeased bonds are not included in the State's financial statements. As of June 30, 2006, $60,970,000 of the fiscal year 2004 defeased bonds remain outstanding, and $20,895,000 of the fiscal year 2005 defeased bonds remain outstanding.

General Obligation Bonds outstanding at June 30, 2006 are comprised of the following issues:

Date Issued	Date Series Matures	Interest Rates %	Amount of Original Issue	Maturity Value of Capital Appreciation Bonds	Maturity Value Sources of Payments General Fund	Transportation Fund	Special Fund	Maturity Value of Bonds Outstanding Total
General Obligation Current Interest Bonds:								
8/1/1992	8/1/2008	3.0 to 5.75	$ 71,280,000		$ 7,355,000	$ 45,000	$ -	$ 7,400,000
12/1/1995	1/15/2015	4.875 to 5.125	60,000,000		3,160,000	-	-	3,160,000
11/20/1996	1/15/2016	5.0 to 5.125	38,000,000		4,000,000	-	-	4,000,000
12/12/1996	1/15/2016	3.7 to 5.6	15,000,000		1,580,000	-	-	1,580,000
10/29/1997	1/15/2017	4.5 to 5.0	28,500,000		4,203,711	296,289	-	4,500,000
12/3/1997	1/15/2017	3.9 to 5.2	14,990,000		2,370,000	-	-	2,370,000
3/15/1998	1/15/2014	4.25 to 5.0	64,575,000		29,592,951	597,049	6,915,000	37,105,000
5/1/1998	1/15/2017	4.5 to 5.0	7,755,000		-	-	1,205,000	1,205,000
11/23/1998	1/15/2018	4.5 to 4.75	26,630,000		5,463,312	136,688	-	5,600,000
11/1/1999	2/1/2019	4.5 to 6.5	32,000,000		6,740,000	-	-	6,740,000
12/16/1999	2/1/2010	4.55 to 5.05	5,000,000		2,000,000	-	-	2,000,000
11/14/2001	8/1/2020	3.25 to 4.75	46,000,000		31,890,000	-	-	31,890,000
12/27/2001	8/1/2011	4.0 to 4.375	5,000,000		3,000,000	-	-	3,000,000
12/11/2002	8/1/2019	3.0 to 5.0	30,800,000		22,495,000	-	-	22,495,000
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		29,494,000	1,596,000	-	31,090,000
2/4/2003	8/1/2007	2.0 to 2.2	5,000,000		2,000,000	-	-	2,000,000
2/11/2004	2/1/2018	1.1 to 5.0	134,457,000		108,357,431	5,307,569	3,005,000	116,670,000
3/10/2004	3/1/2023	2.0 to 5.0	42,200,000		35,066,351	2,683,649	-	37,750,000
3/2/2005	3/1/2025	3.0 to 4.0	26,000,000		25,450,000	-	-	25,450,000
4/13/2005	3/1/2015	2.4 to 4.0	15,000,000		12,600,000	900,000	-	13,500,000
6/7/2005	3/1/2020	2.65 to 5.0	20,805,000		19,109,087	565,913	880,000	20,555,000
11/22/2005	7/15/2026	3.5 to 5.0	30,000,000		30,000,000	-	-	30,000,000
12/13/2005	7/15/2016	3.1 to 4.0	15,000,000		15,000,000	-	-	15,000,000
Total General Obligation Current Interest Bonds					**400,926,843**	**12,128,157**	**12,005,000**	**425,060,000**
General Obligation Capital Appreciation Bonds:								
12/13/90	12/01/10	N/A	19,310,002	48,935,000	20,550,000	-	-	20,550,000
10/30/91	10/15/11	N/A	9,999,837	20,575,000	7,710,000	-	-	7,710,000
12/01/93	08/01/13	N/A	17,987,640	32,625,000	15,300,000	-	-	15,300,000
Total Maturity Value					**43,560,000**	-	-	**43,560,000**
Less: Unaccreted Interest					7,346,182	-	-	7,346,182
Total General Obligation Capital Appreciation Bonds					**36,213,818**	-	-	**36,213,818**
Total General Obligation Bonds					**$ 437,140,661**	**$ 12,128,157**	**$ 12,005,000**	**$ 461,273,818**

Note 10: BUDGET STABILIZATION RESERVES

The 1993 Legislature amended action taken by the 1987 Legislature by repealing legislation creating the Budget Stabilization Trust Fund and created separate Budget Stabilization Reserves within both the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve was created by the 1999 Legislature. These reserves were created to reduce the effects of annual variations in State revenues upon these funds by reserving certain surpluses of revenues.

The reserves balances will consist of any unreserved undesignated surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the Vermont Legislature. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. Pursuant to action taken by the Legislature, the Transportation Fund's Budget Stabilization Reserve at June 30, 2006 was $11,043,987, the General Fund's Budget Stabilization Reserve was $51,807,658 at June 30, 2006, and the Education Fund's Budget Stabilization Reserve at June 30, 2006 was $24,324,432.

Note 11: CONTINGENT AND LIMITED LIABILITIES

A. Contingent Liabilities

Vermont Economic Development Authority:
In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed it the Vermont Economic Development Authority (VEDA or the Authority) in 1993; and transferred the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority, and the Vermont Industrial Aid Board to it. Each of these original entities was relegated to a particular segment of industrial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. It is governed by a twelve member board which consists of the Secretary of Commerce & Community Development, the State Treasurer, the Secretary of Agriculture, Food and Markets, and nine public members appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to $15 million of loans made by financial institutions for the purchase of land and construction of industrial building facilities in the State; to finance the purchase of machinery and equipment; and to provide working capital. The refinancing of existing loans is also possible under the act that created the Authority. As of June 30, 2006, the Authority had mortgage insurance contracts totaling $9,048,694. The full faith and credit of the State is pledged to support these activities of the Authority.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lenders register with the Authority. The full faith and credit of the State is pledged in an amount equal to the reserve premium payment deposited by the participating lenders for each registered loan, with the aggregate amount of credit that may be pledged not to exceed $2 million at any one time. The State's contingent liability at June 30, 2006 was $917,216. The State's net cash contribution since inception is $387,494.

Federal Grants:
The State receives federal grants that are subject to audit and review by federal grantor agencies. This could result in expenditures being disallowed under the terms of the grants. However, it is believed that required reimbursements resulting therefrom would not be material.

B. Limited Liabilities

Vermont Economic Development Authority:
The State has a limited liability for the Vermont Economic Development Authority. The Authority may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 219. Annually, the Authority must

report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

Vermont Municipal Bond Bank:
The State has a limited liability for the Vermont Municipal Bond Bank (Bank). The Bank is required to maintain debt service reserve funds. Title 24, V.S.A. Section 4675 requires the State to provide annual appropriations to restore the reserve funds to the required minimum balance, if necessary. It has never been necessary for the State to appropriate money to the reserve fund and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency:
The State has a limited liability for the Vermont Housing Finance Agency (Agency). The Agency may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 632. Annually, the Agency must report to the State the amount necessary to bring reserve fund balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve fund and it is not anticipated that any appropriation will have to be made.

Note 12: LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights actions, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. However, based on information provided by the Attorney General, any ultimate liability to the State resulting from these lawsuits that is not covered by various insurance policies, would not materially affect the State's overall financial condition.

Note 13: JOINT VENTURE

The State of Vermont has entered into a Tri-State Lotto Compact with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery Commission which is an interstate body, both corporate and politic, serving as a common agency of the party states and representing them both collectively and individually in the exercise of its powers and duties. The commission is composed of one member from each of the party states. Each state's lottery commission appoints one of its members to this position. The three-member commission annually elects a chairperson from among its members. The commission is empowered to operate and administer Tri-State Lotto and to promulgate rules and regulations governing the establishment and operation of the lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the commission. Fifty percent of the gross sales from each state are aggregated in a common prize pool, and operating costs are charged proportionally to each of the party states. The remaining revenues generated within each state remain in that particular state.

At June 24, 2006, the commission had total assets of $152,638,621, and total liabilities of $139,712,256, decreases of $29.23 million and $18.25 million respectively compared to June 25, 2005. For the fiscal year ended June 24, 2006, the commission had operating revenues of $65,275,868, an increase of $380,716; interest income of $517,715, an increase of $292,244; commissions, fees, and bonus expenses of $8,126,372, an increase of $260,601; prize awards of $32,692,069 an increase of $399,791; and other operating expenses of $3,935,040, an increase of $346,658; all increases as compared to the fiscal year ended June 25, 2005.

During fiscal year 2006, the commission made operating transfers to member states of $21,040,102 versus $21,374,192 during fiscal year 2005. This total included $1,949,056 transferred to Vermont during fiscal year 2006, a decrease of $120,836 as compared to fiscal year 2005.

Additional information regarding the Tri-State Lotto Commission may be obtained by contacting the Vermont Lottery Commission, 1311 US Rte. 302-Berlin, Barre, Vermont 05641.

Note 14: RISK MANAGEMENT

A. Workers' Compensation and Liability Risk Management

The Risk Management Division of the Department of Buildings and General Services administers all risk management for State government with the exception of the health and life insurance plans listed below. State policy is to minimize the purchase of commercial insurance by either self-funding or otherwise retaining the risk when it makes sense to do so. The Risk Management Division sets aside assets and pays claims utilizing the following three Internal Service Funds:

Workers' Compensation Self Insurance Fund
State Liability Self Insurance Fund
Risk Management – All Other Fund (used for the purchase of commercial insurance)

The Workers' Compensation Fund covers all State employees pursuant to State statute. Certain quasi-governmental entities may also request coverage through this program. The State has unlimited exposure to liability and has not purchased any stop-loss insurance to limit this exposure. This liability is reviewed annually by an outside actuary, including a review of incurred but not reported claims (IBNR). All claims are processed by Risk Management Division personnel and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's workers' compensation exposure is reliable. The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by the Risk Management Division utilizing departmental exposure and experience factors.

The Liability Insurance Fund covers general and employment practices liability, discrimination, and auto liability risk. The coverage is comparable to standard private commercial policies. It offers coverage to the same group of participants as those covered by the workers' compensation program described above. Its exposure to risk in Vermont is subject to the doctrine of sovereign immunity and is governed by the Vermont Tort Claims Act, 12 V.S.A. §5601. Exposure outside of Vermont is potentially unlimited. It is self-insured for the first $250,000 of exposure and has purchased excess commercial insurance to cover the additional per-occurrence exposure in amounts of up to $1,000,000 in Vermont and $10,000,000 for claims that are not subject to the Vermont Tort Claims Act. This liability is reviewed annually by an outside actuary, including a review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by the Risk Management Division, utilizing departmental exposure and experience factors. Claims are managed by Risk Management personnel. Prior to FY06, claims were administered by a third-party administrator (TPA), which will continue to manage those claims that were initiated during their contract term. The liability loss projections and the claims processing data are audited annually by outside claims adjusters.

The Risk-Management – All Other Fund provides insurance coverage through purchased commercial policies for risks not covered in the above funds or which are self-assumed. This coverage provides insurance for State-owned real property, bonds for various categories of employees, errors and omissions coverage for judges, and various other miscellaneous coverages. The State's liability exposure is limited to the amount of the various deductibles associated with the respective policies. Premium charges from the various insurers are either assessed directly against the entity requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Risk Management also assesses a surcharge of up to 5% of the premium to cover administrative costs. Entities eligible for coverage are the same as those listed above for the other funds.

B. Health Care, Dental Insurance, Life Insurance, Employee Assistance, and Long Term Disability Funds For State Employee Benefit Plans

The Employee Benefits and Wellness Division of the Department of Human Resources maintains medical, dental, life insurance, employee assistance, and long term disability program funds for the benefit of current State employees, retirees, retired former employees allowed participation by statute or labor agreement, legislators, and employees and certain former employees of outside groups which have been declared eligible to participate by statute. All or some of these named groups may participate in each plan depending upon the plan. Temporary and contractual employees are not eligible to participate in these plans.

Participating employees share in the premium cost of all of the medical plans. Premium rate setting is performed by an outside actuary in conjunction with the Employee Benefits and Fiscal and Information Management groups of the Department of Human Resources. The State's liability for incurred but not yet reported (IBNR) claims is calculated by the actuary and is based on the State's prior claims experience.

The current medical plan offerings include four plan options. TotalChoice, HealthGuard, and SafetyNet are "preferred provider organization" indemnity-type plans. There is a lifetime limit on coverage for a participant in these three plans. The SelectCare POS is a "point of service" plan, similar to an open-ended HMO. Members may opt out of the network but must meet a deductible and coinsurance to do so. There is no lifetime coverage limit; however, benefits are administered under a managed care arrangement. All four health plan options are self insured by the State. The State employs a third party administrator to provide administrative services, including claim payment. To limit the State's large claims exposure, the State has purchased stop loss insurance.

The self-funded State of Vermont Employee Dental Assistance Plan provides up to $1,000 regular dental benefits annually and up to $1,750 lifetime for orthodontic expenses for each participant. These plan caps effectively limit the State's exposure to catastrophic loss so no stop-loss insurance has been purchased. The Fiscal and Information Management group within the Department of Human Resources sets the premium rates, in consultation with the dental plan administrator's actuary. Participants include all groups mentioned in paragraph 1 above except for retirees. The State pays 100% of the premium for State employee participants and their covered dependents.

The State of Vermont Employee Life Insurance Program consists of a Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to two times a participant's base salary rounded down to the nearest $100. Retirees who work for the State for at least twenty years and who have life insurance at the time of retirement receive a retiree life benefit of $5,000 with no AD&D coverage. Both Life and AD&D are fully insured benefits. The State purchases insurance under which the carrier retains liability for all claims. The Fiscal and Information Management group calculates the premium rates charged to departments for both of these programs. The State pays 75% of active employees' premiums and 100% of retirees' premium costs. Only current State employees, retired State employees and current members of outside groups are eligible to participate.

A Flexible Spending Account (FSA) Program is available to active State employees only. This account allows pre-tax salary deductions to be used to reimburse eligible medical and dependent care expenses. The FSA Program administrator is paid a monthly fee based on the number of enrolled employees. No claims costs are incurred under this plan by the State.

An Employee Assistance Program (EAP) is provided for the benefit of State employees and members of their immediate household. This program assists employees and family members in addressing problems that impact their lives including stress, family issues, financial, drugs and substance abuse, and other issues. Active State employees and their families are eligible for this program. The EAP Program Manager is paid a monthly fee based on the number of employees who work for the State. The plan provides up to 5 counseling sessions per case through a network of providers. No claims costs, or claims liabilities are incurred under this plan by the State. The State pays 100% of the premium for this plan.

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become disabled due to non-occupational injury or illness, and the disability is expected to be long term or permanent. The plan provides financial protection for State employees and their families by continuing a portion of their income while disabled. Only State employees who are not eligible to be represented by the employees' union (the Vermont State Employees Association) are eligible for this benefit. There is a one-year eligibility waiting period before coverage is effective. This plan is fully insured through an insurance company, so there is no liability to the State for claims. The premium is based on a percentage of the salaries of eligible participants. The State issues payment to the insurance company for the premium and the cost is then recovered from eligible employees in the following manner: Those eligible employees who are covered by a leave plan forfeit one day of compensated absence leave per year. Those eligible employees who are not covered by a leave plan have a one-time 0.2% salary reduction in their next cost-of-living increase.

Presented below is a table displaying three years' changes in the respective funds' claims liability amounts.

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Balance of Liability at End of Fiscal Year
Workers' Compensation Fund				
FY2004	$15,488,977	$ 4,778,463	$ 5,796,437	$ 14,471,003
FY2005	14,471,003	5,791,361	5,482,971	14,779,393
FY2006	14,779,393	8,390,960	5,968,751	17,201,602
State Liability Insurance Fund				
FY2004	6,709,592	2,191,792	1,151,246	7,750,138
FY2005	7,750,138	916,676	1,677,010	6,989,804
FY2006	6,989,804	1,036,594	2,053,797	5,972,601
Medical Insurance Fund				
FY2004	10,859,261	62,775,246	63,738,506	9,896,001
FY2005	9,896,001	73,415,841	72,614,267	10,697,575
FY2006	10,697,575	79,503,185	80,171,813	10,028,947
Dental Insurance Fund				
FY2004	346,585	4,723,147	4,699,450	370,282
FY2005	370,282	4,912,541	4,895,269	387,554
FY2006	387,554	5,033,480	5,135,178	285,856

Worker's Compensation Fund - The FY2005 Current FY Claims and Changes in Estimates column includes $65,368 for claims liability included in accounts payable in the prior year.

Medical Insurance Fund - The FY2004 Current FY Claims Payments column includes $4,090 credited as a claims refund of expenditure from the carrier.

Note 15: DEFICIT NET ASSETS

The following individual funds had deficit total net assets or deficit unrestricted net assets at June 30, 2006:

Business-type Proprietary Funds
Federal Surplus Property: ended fiscal year 2006 with both a deficit unrestricted net asset balance of $488,271 as well as a deficit total net asset balance of $487,854. Both of these deficits are the result of the sale prices for surplus property sold at auction not being great enough to offset both the acquisition and delivery costs associated with obtaining the items and the departmental costs associated with running the program. In any one year the size of these deficits may be exacerbated because of timing differences resulting from the fiscal year of the recording of the acquisition costs (inventory) and the corresponding entry in deferred revenue being different than that of the sale of the item. This situation would be especially prevalent if the item is relatively expensive to acquire. As the fund balance of this program is highly dependent on final sales price received for goods sold as compared to their acquisition costs, any continuing deficit that cannot be recovered through normal business operations will probably require some special action to be taken.

Vermont Life: had a deficit unrestricted net asset balance of $134,471 and a deficit total net asset balance of $129,502 as of June 30, 2006. It operated at a loss in both fiscal year 2005 ($64,587) and 2006 ($145,132.) These operating losses and their related net asset deficits are primarily the result of the effect of decreasing revenues as well as increased printing, postage and payroll costs. In fiscal year 2006, a consultant was hired to evaluate the business and to make recommendations for improvements. As part of these recommendations, a publisher was hired in early fiscal year 2007 to plan, oversee and implement changes at Vermont Life with a goal towards improving its financial performance while maintaining its quality and value to the State of Vermont. In the coming months, these changes may include but will certainly not be limited to increasing the sales price of the magazine and/or its associated merchandise; decreasing costs where possible; taking on other revenue sources as appropriate; and possibly reorganizing the magazine's staff.

Internal Service Funds
Highway Garage Fund: had net "losses before contributions and transfers" for 2004, 2005 and 2006 of $280,633; $1,795,150; and $1,660,640 respectively. These operating deficits had resulted in a slightly positive unrestricted net asset balance of $421,429 at June 30, 2004 and deficit unrestricted net asset balances of $3,370,689 and $1,012,289 at June 30, 2005 and 2006 respectively. These large deficit balances in 2005 and 2006 were the result of the transfer of $2,600,000 from the highway garage fund in 2005 to the Transportation Fund per Act 6 Section 69b of the 2005 Legislative session and then the subsequent return of this $2,600,000 to the Highway Garage Fund in FY 2006. In FY 2006, an additional $2,253,447 was transferred from the Transportation Fund to the Highway Garage Fund which lessened the deficit unrestricted net asset balance at June 30, 2006. The Highway Garage Department has developed a 5-year plan to eliminate the remaining deficit by increasing rental rates to eliminate 20% of the deficit in a given year.

Communications & Information Technology: ended fiscal year 2006 with a deficit unrestricted net asset balance of $1,487,136 and a deficit total net asset balance of $567,937. These deficits, although fairly substantial, were reductions in the June 30, 2005 unrestricted and total net asset deficits of $1,999,884 and $1,140,631 respectively and were basically accomplished by transferring in $1,195,000 from the General Fund. These deficits in this fund over the last two years were the result of revenue shortfalls rather than excess spending as there was insufficient revenue to cover the operating costs of the Department's overhead and the associated Chief Information Officer (CIO) functions. Operating losses in 2005 and 2006 were $491,352 and $619,205 respectively.

In FY 2007 the Department began operating under a new funding model that will generate sufficient revenue to cover its expenses and to eliminate this deficit within five years. In addition, the Department of Information and Innovation expects to combine the Communications and Information Technology Fund with the GOVNet fund (see below) during fiscal year 2007 so as to realize additional operating efficiencies.

GOVNet Fund: ended fiscal year 2006 with a deficit unrestricted net asset balance of $1,062,045 and a deficit total net asset balance of $519,823. Both of these were reductions in the 2005 unrestricted and net asset deficit balances of $1,468,150 and $1,014,705 respectively. As a result of increased receipts and reduced costs during fiscal year 2006, the fund generated an operating surplus of $494,882. During fiscal year 2007, the Department of Information and Innovation will combine the Communications & Information Technology fund and the GOVNet fund into one fund (see above). This combined operation is expected to generate sufficient revenue to cover expenses and to eliminate any deficits within five years.

Supply Center Fund: ended fiscal year 2006 with a deficit unrestricted net asset balance of $4,107,859 and a deficit total net asset balance of $140,686. This large unrestricted net asset deficit is due to the cost of operations of the new Statewide Fleet program which is being accounted for in this fund. To help cover the costs associated with rising program costs, gasoline prices, timing of purchases, etc., and to reduce the deficit, the program implemented new rates effective 10/1/2005. Rate increases to cover all costs and to help reduce the deficit have been instituted but higher maintenance and repair expenses associated with the addition of the older fleet vehicles is preventing the program revenues from covering all expenditures. As the older fleet vehicles are replaced, the rates will be adjusted to cover all costs plus reduce any fund deficit.

Copy Center Fund: ended fiscal year 2006 with a deficit unrestricted net asset balance of $3,258,102 and a deficit total net asset balance of $1,629,397. These deficits are the result of the State's print shop revenues not being enough to cover its operating costs. Print shop activities, which have not received any rate increases over the last four years, have been approved for a rate increase for FY 2007 though no final amount has been set. In the meantime, rates were adjusted to cover the increase cost of raw materials. Additionally, the State's convenience copier program is also operating at a deficit. The Department of Buildings and General Services (BGS) is currently reviewing the viability of these programs and anticipates that its convenience copier program will be replaced by individual departments purchasing their own copiers through the State's Equipment Revolving fund. To possibly realize additional savings, the feasibility of implementing a statewide maintenance contract will be undertaken by BGS.

Postage Fund: ended fiscal year 2006 with both a deficit unrestricted net asset balance of $885,034 and a deficit total net asset balance of $876,610 as compared to fiscal year 2005 deficits of $562,205 and $414,321 respectively. These two fiscal years also experienced operating deficits of $444,121 for 2006 and $244,632 for 2005. The fund deficits are due to increased costs incurred by the department for actions taken by the department to obtain decreases in mailing costs charged by the post office. These actions include such things as pre-sorting mail, bulk mailing, etc which results in lower mailing costs being realized by the State. These savings were passed on to the customers in their entirety in the past resulting in the postage fund realizing additional costs but not realizing additional revenue to offset the costs. To offset these deficits, preliminary approval has been granted to increase the percentage of the savings received for retention by the program. The final amount of the savings to be retained by the postage fund has not been established but is anticipated to be enough to reduce the operating losses and fund deficits beginning in FY 2007.

Facilities Operations Fund: ended fiscal year 2006 with a deficit unrestricted net asset balance of $901,641 and a deficit total net asset balance of $661,808. In 2005, the fund experienced deficits of $1,161,758 and $940,590 respectively. The fund deficits continue to be reduced through the level of program revenues being realized being great enough to cover program expenses for the second year in a row. In addition, to help reduce the deficits, the fund received $250,000 toward the fund deficits. If the current levels of billed revenues plus additional help is realized by the fund, the deficit will be eliminated within three years.

Property Management Fund: had a deficit unrestricted net asset balance of $10,028,466 and a deficit total net asset balance of $10,022,779 as of June 30, 2006. Part of this fund deficit was anticipated and is the result of the purchase of 3 State office buildings whose acquisition costs were financed by the issuance of 20-year bonds while the funding for the payoff of these bonds is being realized over a 50 year period. This deficit is calculated to continue growing until the bonds are paid off at which time the part of the deficit will start to decrease annually and will be eliminated at the end of the 50-year recovery period. The other part of the deficit is due to increased operating and maintenance costs associated with the Rutland parking garage and other leased space maintained by the state not being able to be recovered through increased rental charges due to fixed rent lease terms in the current lease agreements. The reduction of this portion of the deficit is being addressed as current leases terminate and new lease terms are negotiated.

Risk Management All-Other Fund: ended fiscal year 2006 with a deficit unrestricted and a deficit total net asset balance of $461,242. This deficit was due to timing differences that resulted when a large Workers Compensation policy was purchased and paid for but whose cost was not billed in a timely manner to the participating parties. This fund recovers the costs of the program from the policy holders through a surcharge on 3rd party insurance premiums. The program is intended to purchase insurance coverage on behalf of specific customers for specific reasons. The policyholders are responsible for the total costs including overhead charges for the programs they participate in.

Workers' Compensation Fund: ended fiscal year 2006 with a deficit unrestricted and a deficit total net asset balance of $3,433,598. This deficit fund balance had been reduced from FY 2005's deficit fund balances of $2,409,067 through rate increases to participating departments. However, rate increases in FY 2006 were not enough to overcome the increased experience portion of the claims figure derived by the actuaries as well as the operating costs of the program. As a result, the fund deficit increased in this program. In FY 2007 and beyond, increased rates are intended to cover the operating costs of the fund as well as reduce the continuing fund deficit.

Note 16: CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2006, the following changes occurred in long-term liabilities:

PRIMARY GOVERNMENT

	July 1, 2005	Additions	Reductions	June 30, 2006	Amounts due within one year
Governmental activities:					
Bonds payable (1)	$ 463,390,739	$ 47,445,078	$ 49,562,000	$ 461,273,817	$ 50,640,000
Capital leases payable	869,768	280,327	304,311	845,784	359,656
Compensated absences	29,234,282	31,823,967	30,585,105	30,473,144	20,345,922
Claims and judgements	32,854,326	93,964,219	93,329,539	33,489,006	10,314,803
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligation	172,921,486	31,953,604	-	204,875,090	-
Other liabilities	13,614,113	744,195	1,273,600	13,084,708	1,273,601
Total governmental activities long-term liabilities	$ 719,884,714	$206,211,390	$175,054,555	$ 751,041,549	$ 82,933,982
Business-type activities:					
Compensated absences	$ 314,341	$ 307,686	$ 285,463	$ 336,564	$ 216,526
Lottery prize awards payable	4,524,551	66,450,281	66,491,145	4,483,687	479,723
Total business-type activities long-term liabilities	$ 4,838,892	$ 66,757,967	$ 66,776,608	$ 4,820,251	$ 696,249
Fiduciary:					
Compensated absences	$ 3,321	$ 8,417	$ 7,080	$ 4,658	$ 4,098
Total fiduciary long-term liabilities	$ 3,321	$ 8,417	$ 7,080	$ 4,658	$ 4,098
COMPONENT UNITS					
Bonds and notes payable	$ 2,537,754,688	$326,659,006	$207,565,769	$ 2,656,847,925	$123,981,030
Capital leases payable	243,358	156,112	118,649	280,821	99,396
Accrued arbitrage rebate	21,151,568	3,854,353	648,656	24,357,265	679,359
Other liabilities	21,280,489	906,000	703,083	21,483,406	824,000
Total component units long-term liabilities	$ 2,580,430,103	$331,575,471	$209,036,157	$ 2,702,969,417	$125,583,785

(1) Governmental activities bonds payable additions include $2,445,078 of accretions on capital appreciation bonds.

Note 17: SUBSEQUENT EVENTS

Homestead Property Tax Income Sensitivity Adjustment
Effective January 1, 2007, Act 185 of 2006 legislative session amends Title 32 V.S.A. Chapter 154 by combining the property tax Prebate and Rebate programs into a single program entitled the "Property Tax Adjustment Program." This new program requires that, upon receipt of a claim from a taxpayer for property tax relief, an "adjustment amount" be calculated by the Tax Department using prior year income and property tax information. In addition this act provides a means for taxpayers to choose to apply any personal income tax refund amounts towards their property tax liability including, as an incentive, a further reduction in property tax due equal to 1% of the amount of personal income tax refund so designated. The act requires the Department of Taxes to pay these amounts directly to the municipalities, not the taxpayer, and to notify the taxpayer of the amount of each of the property tax adjustments and the amount of the personal income tax refund paid to the municipality. The municipality is required to provide the taxpayer with a property tax bill adjusted for and displaying the total amount of the adjustments and personal income tax refund received from the Department of Taxes. The Act establishes limitations on the property tax adjustment so that no taxpayer shall receive total adjustments (not including the taxpayer designated personal income tax amount) under this chapter in excess of $10,000 related to any one property tax year.

State Employees' Postemployment Benefits Pension Trust Fund
Effective July 1, 2006, Act 215 of 2006 legislative session added Title 3 V.S.A. §479a which creates the State Employees' Postemployment Benefits Pension Trust Fund as an irrevocable trust administered by the State Treasurer for the purpose of accumulating and providing reserves to fund retiree postemployment benefits for members of the VSRS, excluding pensions and benefits otherwise appropriated by statute. All funds remitted to the State as a subsidy on behalf of the members of the VSRS for employer-sponsored qualified prescription drug plans pursuant to the Medicare Prescription Drug Improvement and Modernization Act of 2003 as well as any appropriations by the legislature to fund retiree postemployment benefits for members of the VSRS will be deposited into this fund.

Required Supplementary Information

(Unaudited)

State of Vermont
Required Supplementary Information
Defined Benefit Pension Plans
Schedule of Funding Progress
(dollar amounts in 1000's)
(Unaudited)

Actuarial Valuation Date 6/30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSRS[1]						
2001	$ 954,821	$ 1,026,993	$ 72,172	93.0%	$ 278,507	25.9%
2002	990,450	1,017,129	26,679	97.4%	300,994	8.9%
2003	1,025,469	1,052,004	26,535	97.5%	319,855	8.3%
2004	1,081,359	1,107,634	26,275	97.6%	336,615	7.8%
2005	1,148,908	1,174,796	25,888	97.8%	349,258	7.4%
2006	1,223,323	1,232,367	9,044	99.3%	369,310	2.4%
STRS[1]						
2001	1,116,846	1,254,341	137,495	89.0%	403,258	34.1%
2002	1,169,294	1,307,202	137,908	89.5%	418,904	32.9%
2003	1,218,001	1,358,822	140,821	89.6%	437,239	32.2%
2004	1,284,833	1,424,662	139,829	90.2%	453,517	30.8%
2005	1,354,006	1,492,150	138,144	90.7%	468,858	29.5%
2006	1,427,393	1,686,502	259,109	84.6%	499,044	51.9%
MERS						
2001	177,928	158,786	(19,142)	112.1%	101,873	-18.8%
2002	193,278	176,109	(17,169)	109.7%	106,986	-16.0%
2003	222,854	218,533	(4,321)	102.0%	126,216	-3.4%
2004	232,890	225,092	(7,798)	103.5%	135,351	-5.8%
2005	259,076	248,140	(10,936)	104.4%	146,190	-7.5%
2006	288,347	276,552	(11,795)	104.3%	148,815	-7.9%

[1] The funding method for VSRS and STRS was changed from "entry age normal with frozen initial liability" to "entry age normal" effective with the 2006 actuarial valuaton.

(unaudited)

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance-Favorable (Unfavorable)
Revenues:				
Taxes	$ 1,033,500,000	$ 1,051,492,600	$ 1,087,716,761	$ 36,224,161
Earnings of Departments	12,900,000	12,785,800	14,509,526	1,723,726
Other	12,600,000	11,321,900	9,685,045	(1,636,855)
Total revenues	**1,059,000,000**	**1,075,600,300**	**1,111,911,332**	**36,311,032**
Expenditures:				
General government	43,425,624	49,963,125	42,797,344	7,165,781
Protection to persons and property	78,248,797	83,827,352	80,121,064	3,706,288
Human services	342,969,752	383,372,152	369,086,376	14,285,776
Employment and training	1,395,248	2,097,074	1,495,473	601,601
General education	127,493,126	159,991,206	140,849,312	19,141,894
Natural resources	21,890,505	26,919,142	22,354,124	4,565,018
Commerce and community development	14,605,531	22,812,848	15,207,224	7,605,624
Debt service	62,968,427	62,729,533	62,701,531	28,002
Total expenditures	**692,997,010**	**791,712,432**	**734,612,448**	**57,099,984**
Excess of revenues over expenditures	**366,002,990**	**283,887,868**	**377,298,884**	**93,411,016**
Other Financing Sources (Uses):				
Transfers in	13,009,627	20,573,131	20,573,131	-
Transfers out	(398,690,059)	(403,808,089)	(403,808,089)	-
Premium on sale of bonds	-	702,120	702,120	-
Total other financing sources (uses)	**(385,680,432)**	**(382,532,838)**	**(382,532,838)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(19,677,442)**	**(98,644,970)**	**(5,233,954)**	**93,411,016**
Fund balance, July 1	**145,544,760**	**145,544,760**	**145,544,760**	**-**
Fund balance, June 30	**$ 125,867,318**	**$ 46,899,790**	**$ 140,310,806**	**$ 93,411,016**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
TRANSPORTATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes	$ 140,966,700	$ 139,700,000	$ 135,670,240	$ (4,029,760)
Licenses	60,000,000	59,600,000	61,427,301	1,827,301
Federal	164,341,904	195,080,889	143,242,483	(51,838,406)
Other	16,300,000	16,300,000	$ 17,188,079	888,079
Total revenues	**381,608,604**	**410,680,889**	**357,528,103**	**(53,152,786)**
Expenditures:				
General Government	11,288,922	10,338,842	10,255,433	83,409
Protection to Persons and Property	28,038,314	28,079,435	28,039,252	40,183
Human Services	1,637,082	1,641,462	1,641,462	-
General Education	2,903,066	3,289,687	3,289,237	450
Natural Resources	1,274,482	1,608,590	1,480,933	127,657
Transportation	337,323,039	376,502,463	323,399,182	53,103,281
Debt service	2,109,547	2,146,285	2,146,285	-
Total expenditures	**384,574,452**	**423,606,764**	**370,251,784**	**53,354,980**
Excess of revenues over expenditures	**(2,965,848)**	**(12,925,875)**	**(12,723,681)**	**202,194**
Other Financing Sources (Uses):				
Transfers in	5,880,791	11,171,844	11,171,844	-
Transfers out	(7,400,210)	(8,383,514)	(8,383,514)	-
Premium on Sale of Bonds	-	-	-	-
Total other financing sources (uses)	**(1,519,419)**	**2,788,330**	**2,788,330**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(4,485,267)**	**(10,137,545)**	**(9,935,351)**	**202,194**
Fund balance, July 1	**15,223,288**	**15,223,288**	**15,223,288**	**-**
Fund balance, June 30	**$ 10,738,021**	**$ 5,085,743**	**$ 5,287,937**	**$ 202,194**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes	$ 949,144,417	$ 948,243,917	$ 949,803,791	$ 1,559,874
Interest & premiums	-	(500,000)	(683,880)	(183,880)
Total revenues	**949,144,417**	**947,743,917**	**949,119,911**	**1,375,994**
Expenditures:				
General education	1,240,167,487	1,242,243,532	1,237,211,713	5,031,819
Total expenditures	**1,240,167,487**	**1,242,243,532**	**1,237,211,713**	**5,031,819**
Excess of revenues over expenditures	**(291,023,070)**	**(294,499,615)**	**(288,091,802)**	**6,407,813**
Other Financing Sources (Uses):				
Transfers in	289,487,534	289,475,903	289,475,903	-
Transfers out	(932,000)	(932,000)	(932,000)	-
Total other financing sources (uses)	**288,555,534**	**288,543,903**	**288,543,903**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(2,467,536)**	**(5,955,712)**	**452,101**	**6,407,813**
Fund balance, July 1	**28,903,144**	**28,903,144**	**28,903,144**	**-**
Fund balance, June 30	**$ 26,435,608**	**$ 22,947,432**	**$ 29,355,245**	**$ 6,407,813**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes	$ -	$ -	$ 145,076,567	$ 145,076,567
Licenses	-	-	13,293,556	13,293,556
Fines, Forfeits and Penalties	-	-	7,373,065	7,373,065
Earnings of Departments	-	-	57,661,444	57,661,444
Interest and Premiums	-	-	4,698,322	4,698,322
Other	-	-	106,401,311	106,401,311
Special Fund Revenues	399,950,989	449,650,954	-	(449,650,954)
Total revenues	**399,950,989**	**449,650,954**	**334,504,265**	**(115,146,689)**
Expenditures:				
General government	7,697,790	14,685,669	11,686,918	2,998,751
Protection to persons and property	54,832,937	60,440,704	58,971,070	1,469,634
Human services	357,686,863	368,078,503	334,643,768	33,434,735
Employment and training	3,663,362	3,663,362	2,601,955	1,061,407
General education	15,811,830	18,770,596	18,165,934	604,662
Natural resources	29,405,303	33,851,629	26,529,142	7,322,487
Commerce and community development	6,378,594	8,803,567	5,829,379	2,974,188
Transportation	1	373,500	272,380	101,120
Public service enterprises	4,751,250	7,499,632	1,864,219	5,635,413
Debt service	2,383,260	2,383,260	2,383,260	-
Total expenditures	**482,611,190**	**518,550,422**	**462,948,025**	**55,602,397**
Excess of revenues over expenditures	**(82,660,201)**	**(68,899,468)**	**(128,443,760)**	**(59,544,292)**
Other Financing Sources (Uses):				
Transfers in	174,677,164	177,333,561	177,333,561	-
Transfers out	(12,490,935)	(23,829,815)	(23,829,815)	-
Total other financing sources (uses)	**162,186,229**	**153,503,746**	**153,503,746**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**79,526,028**	**84,604,278**	**25,059,986**	**(59,544,292)**
Fund balance, July 1	**95,731,105**	**95,731,105**	**95,731,105**	**-**
Fund balance, June 30	**$ 175,257,133**	**$ 180,335,383**	**$ 120,791,091**	**$ (59,544,292)**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FEDERAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Federal	$ 931,232,916	$ 1,101,191,332	$ 995,909,405	$ (105,281,927)
Interest and premiums	-	-	609,736	609,736
Other	-	-	1,356,995	1,356,995
Total revenues	**931,232,916**	**1,101,191,332**	**997,876,136**	**(103,315,196)**
Expenditures:				
General government	2,835,018	3,335,127	2,440,559	894,568
Protection to persons and property	50,101,089	54,824,051	45,812,097	9,011,954
Human services	718,911,145	857,235,374	765,589,560	91,645,814
Employment and training	19,472,969	19,490,274	18,788,454	701,820
General education	115,413,832	115,053,635	111,133,210	3,920,425
Natural resources	13,616,796	29,743,657	26,507,069	3,236,588
Commerce and community development	10,882,067	21,509,214	9,331,263	12,177,951
Total expenditures	**931,232,916**	**1,101,191,332**	**979,602,212**	**121,589,120**
Excess of revenues over expenditures	**-**	**-**	**18,273,924**	**18,273,924**
Other Financing Sources (Uses):				
Transfers in	-	1,238,314	1,238,314	-
Transfers out	(19,619,167)	(19,617,729)	(19,617,729)	-
Total other financing sources (uses)	**(19,619,167)**	**(18,379,415)**	**(18,379,415)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(19,619,167)**	**(18,379,415)**	**(105,491)**	**18,273,924**
Fund balance, July 1	**9,510,284**	**9,510,284**	**9,510,284**	**-**
Fund balance, June 30	**$ (10,108,883)**	**$ (8,869,131)**	**$ 9,404,793**	**$ 18,273,924**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GLOBAL COMMITMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Other	$ -	$ 554,456,635	$ 566,057,005	$ 11,600,370
Total revenues	**-**	**554,456,635**	**566,057,005**	**11,600,370**
Expenditures:				
Protection to persons and property	-	1,396,672	1,249,637	147,035
Human services	-	540,519,499	524,805,375	15,714,124
General education	-	3,760,056	3,752,209	7,847
Total expenditures	**-**	**545,676,227**	**529,807,221**	**15,869,006**
Excess of revenues over expenditures	**-**	**8,780,408**	**36,249,784**	**27,469,376**
Other Financing Sources (Uses):				
Transfers in	-	3,768,020	3,768,020	-
Transfers out	-	(26,578,054)	(26,578,054)	-
Total other financing sources (uses)	**-**	**(22,810,034)**	**(22,810,034)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**-**	**(14,029,626)**	**13,439,750**	**27,469,376**
Fund balance, July 1	**-**	**-**	**-**	**-**
Fund balance, June 30	**$ -**	**$ (14,029,626)**	**$ 13,439,750**	**$ 27,469,376**

The accompanying notes are an integral part of the required supplementary information.

Notes to Required Supplementary Information - Budgetary Reporting
For the fiscal year ended June 30, 2006
(Unaudited)

RECONCILIATION OF BUDGETARY TO GAAP

The State's annual budget is prepared on a basis (cash) other than GAAP. The actual results column of the "Budget and Actual" non-GAAP budgetary schedules are presented on a modified cash basis to provide a meaningful comparison to budget. The General and major Special Revenue Funds' statements are prepared on a modified accrual basis (GAAP). The major differences between the modified cash basis and the modified accrual basis are:

1 Expenditures are recognized when cash is paid or committed (budgetary) rather than when the obligation is incurred.

2 On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order not to double count revenues and expenditures.

The following schedule reconciles the general and special revenue funds of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the fiscal year ended June 30, 2006.

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund	Global Commitment Fund
Fund Balance - Budgetary Basis	$ 140,310,806	$ 5,287,937	$ 29,355,245	$120,791,091	$ 9,404,793	$13,439,750
Basis of accounting and reporting entity differences:						
To record cash on hand, restricted cash, market value of investments	264,910	2,617,793	-	222,144	-	-
To record taxes receivable	165,686,443	9,355,267	14,801,028	10,380,872	-	-
To record loans/notes receivable, due from other funds, and other receivables	11,715,070	12,112,419	-	5,060,400	250,140	105,142,986
To record due from federal government	-	23,016,298	-	-	111,276,348	-
To record due from component units	-	-	-	51,830	-	-
To record accounts and retainage payable, accrued liabilities, deferred revenue	(137,605,150)	(31,539,202)	(17,035,365)	(17,664,520)	(45,773,768)	(98,717,550)
To record tax refunds payable	(5,994,718)	-	-	-	-	-
To record due to other funds	(12,927,311)	(49,400)	(11,623)	(20,736,694)	(54,341,523)	-
To record effects of blended non-budgeted funds	-	-	-	3,592,665	30,735,490	-
To record removal of discretely presented component unit		-	-	(3,836,744)	1,457,589	-
Fund Balance - GAAP Basis	$ 161,450,050	$ 20,801,112	$ 27,109,285	$ 97,861,044	$ 53,009,069	$19,865,186

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FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of $35,000,000 General Obligation Bonds, 2007 Series D (the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

"Transmission Agent" shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each Repository. The current Transmission Agent is listed on Exhibit B attached hereto.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), commencing with the report for the fiscal year ended on June 30, 2007 (to be filed no later than June 30, 2008), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to each Repository or the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available;

Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major Government Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State dated November __, 2007; and

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults.

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties.

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties.

(v) substitution of the credit or liquidity providers or their failure to perform.

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(vii) modifications to rights of Bondholders.

(viii) optional, contingent or unscheduled calls of bonds.

(ix) defeasances.

(x) release, substitution or sale of property securing repayment of the Bonds.

(xi) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) If the Issuer determines that the occurrence of a Listed Event is material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the terms of the Bonds.

SECTION 6. Alternative Methods for Reporting. The State may satisfy its obligations to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the SEC, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the State Treasurer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided pursuant to the terms of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default pursuant to the terms of the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: ____________, 2007

STATE OF VERMONT, as Issuer

By:____
George B. "Jeb" Spaulding
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: $35,000,000 General Obligation Bonds, 2007 Series D

Date of Issuance: ____________, 2007

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated __________, 2007. The Issuer anticipates that the Annual Report will be filed by _____________.

Dated:_______________

STATE OF VERMONT, as Issuer

By:____

EXHIBIT B

List of Nationally Recognized Municipal Securities Information Repositories and Transmission Agent at the time of execution and delivery of the Continuing Disclosure Agreement.

This list may change from time to time. The Continuing Disclosure Agreement requires that information and notices be provided to each Repository. This list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.htm.

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/rates/municontacts.html
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
http://www.MuniFILINGS.com
Email: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
http://www.interactivedata-prd.com
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
http://www.disclosuredirectory.standardandpoors.com
Email: nrmsir_repository@sandp.com

Transmission Agent

Disclosure USA
P.O. Box 684667
Austin, Texas 78768-4667
www.DisclosureUSA.org

FORM OF BOND COUNSEL OPINION

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PROPOSED FORM OF OPINION OF BOND COUNSEL

EDWARDS ANGELL PALMER & DODGE LLP
111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

(Date of Delivery)

The Honorable James H. Douglas
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

$35,000,000
State of Vermont
General Obligation Bonds, 2007 Series D
Dated Date of Delivery

We have acted as bond counsel to the State of Vermont (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from Vermont personal income taxes and Vermont corporate income taxes. We express no opinion regarding any other Vermont tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Vermont.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

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STATE OF VERMONT • GENERAL OBLIGATION REFUNDING BONDS 2007 SERIES F

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